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There is No Such Thing as Trickle-Down Economics

by Steven Horwitz

Critics of liberalism and the market economy have made a long-standing habit of inventing terms we would never use to describe ourselves. The most common of these is “neo-liberal” or “neo-liberalism,” which appears to mean whatever the critics wish it to mean to describe ideas they don’t like. To the extent the terms have clear definitions, they certainly don’t align with the actual views of defenders of markets and liberal society.

Trickle Down

Economists have never used that term to describe their views. Another related term is “trickle-down economics.” People who argue for tax cuts, less government spending, and more freedom for people to produce and trade what they think is valuable are often accused of supporting something called “trickle-down economics.” It’s hard to pin down exactly what that term means, but it seems to be something like the following: “those free market folks believe that if you give tax cuts or subsidies to rich people, the wealth they acquire will (somehow) ‘trickle down’ to the poor.”

The problem with this term is that, as far as I know, no economist has ever used that term to describe their own views. Critics of the market should take up the challenge of finding an economist who argues something like “giving things to group A is a good idea because they will then trickle down to group B.” I submit they will fail in finding one because such a person does not exist. Plus, as Thomas Sowell has pointed out, the whole argument is silly: why not just

give whatever the things are to group B directly and eliminate the middleman?

There’s no economic argument that claims that policies that themselves only benefit the wealthy directly will somehow “trickle down” to the poor. Transferring wealth to the rich, or even tax cuts that only apply to them, are not policies that are going to benefit the poor, or certainly not in any notable way. Defenders of markets are certainly not going to support direct transfers or subsidies to the rich in any case. That’s precisely the sort of crony capitalism that true liberals reject.

General Prosperity

Government doesn’t “give” us tax refunds; it simply refrains from taking more of what we created. What the critics will find, if they choose to look, is many economists who argue that allowing everyone to pursue all the opportunities they can in the marketplace, with the minimal level of taxation and regulation, will create generalized prosperity. The value of cutting taxes is not just cutting them for higher income groups, but for everyone. Letting everyone keep more of the value they create through exchange means that everyone has more incentive to create such value in the first place, whether it’s through the ownership of capital or finding new uses for one’s labor.

In addition, those of us who support such policies don’t want to “give” anything to anyone, whether rich or poor. When people talk about tax cuts as “giving” something to someone, they implicitly start from the premise that everything belongs to government and we are only able to keep some for ourselves by its indulgence of us.

Aside from the fact that rights are not what government

gives to us but what we already have that it should, in theory, protect, the only reason government has any revenue in the first place is because it was taken through taxation from those in the private sector who created it. Government doesn't "give" us tax refunds; it simply refrains from taking more of what we created through mutually beneficial exchange in the first place.

Grain of Truth

The key is not transferring funds to the currently rich, but ensuring the most competitive economic environment possible. However, there is one small grain of truth in the "trickle down" idea. One of the key reasons that modern Westerners, including poor ones, live so much better today than at any point in the past is because our ability to combine our labor with more and better capital has driven up our wages and driven down the cost of goods and services. The accumulation of capital by some does contribute to the enrichment of others as that capital makes workers' labor more productive and thus more valuable.

That historical truth is not a justification for directly subsidizing the current owners of capital. Contrary to what thinkers like Thomas Piketty appear to believe, merely possessing capital does not ensure a flow of income. It is not ownership of capital per se that benefits others, but the ability to deploy capital in ways that create value for consumers. That is why reducing the tax and regulatory burden on everyone is so important: anyone can come with new ways to create value and potentially enrich themselves and others in the process.

The key is not transferring funds to the currently rich, but ensuring the most competitive economic environment possible so that those with the better ideas can put them into practice. The current owners of capital should not be able to lock in their position by using the political process to enrich themselves by legislation that specifically benefits themselves.

As Hayek observed in his defense of competition:

[I]t is by no means regularly the established entrepreneur, the man in charge of the existing

plant, who will discover what is the best method [for efficient production]. The force which in a competitive society brings about the reduction of price to the lowest cost at which the quantity salable at that cost can be produced is the opportunity for anybody who knows a cheaper method to come in at his own risk, and to attract customers by underbidding the other producers.

Today's owners of capital do not have all of the answers, and the way to ensure the best result for everyone, especially the least well off, is to give everyone the freedom to enter and exit the market and to have the maximum incentive to do so by enabling them to keep the fruits of their successful value creation.

Wealth Creation First

The way to help the poor is to maximize our freedom to create and keep value through the unhampered market economy. No serious economist believes the lives of the poor are improved by wealth being transferred to the rich and then "trickling down" to the poor. What economics does tell us is that wealth has to be created first and foremost. You can't transfer something that does not exist. Wealth creation is most likely to happen when people are able to innovate without permission and put their ideas to the market test.

This process of market-tested permissionless innovation will indeed make some people rich, and it will make some rich people poor. What it also does is to drive the creation of value across entire societies, raising the standard of living for all of their inhabitants.

The momentary snapshots of rich and poor are not the categories that matter for sound economic policy. Wealth does not "trickle down" from rich to poor. It is created by all of us when we develop new ideas, skills, and products as either workers or owners of capital.

The way to help the poor is to maximize our freedom to create and keep value through the unhampered market economy. The answer is not giving hand-outs

to those who, momentarily, occupy the group we call "the rich." And history tells us that the improving standard of living for everyone that results from more economic freedom will be more of a flood than a trickle.

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Alexander Hamilton, a Second-Hand Dealer in Retrograde Mercantilist Ideas

by Lawrence H. White

The controversy over whether Alexander Hamilton's image should be replaced on the \$10 bill, outraged commentators made many extravagant claims on behalf of Hamilton's wisdom in matters of money and banking policy.

He was decidedly retrograde in pushing for an exclusive nationwide bank with a sweetheart government deal. For example, Ben Bernanke blogged that "Hamilton was without doubt the best and most foresighted economic policymaker in U.S. history," citing among other evidence that "over the objections of Thomas Jefferson and James Madison, Hamilton also oversaw the chartering in 1791 of the First Bank of the United States, which was to serve as a central bank and would be a precursor of the Federal Reserve System."

Now that the controversy has cooled we can take a more informed perspective. There is no denying Hamilton's importance and influence, or that his life story is compelling, as evidenced by the sold-out hip-hop musical *Hamilton* currently running on Broadway. But the wisdom of his policy advice, and the merits of the First Bank of the United States (BUS), are another

matter.

To describe Hamilton's Bank accurately, one should note that Congress owned one fifth of its shares, and chartered it *exclusively*, that is, made it the only bank allowed by law to branch nationwide. (State governments chartered banks, but each state denied entry to banks with charters from other states.)

The BUS monopoly franchise was among the chief of the objections of Jefferson and Madison, and deservedly so. One nationwide bank is better than none, but many is better than one. Creating a legal monopoly where open competition could and should prevail is hardly a mark of good or foresighted economic policy.

Many modern-day historians miss this point, and laud Hamilton as a man of unerring financial genius. Robert E. Wright and David J. Cowen, in their 2006 book *Financial Founding Fathers: The Men Who Made America Rich*, write of Hamilton's "creative genius, as he became the architect and chief advocate of a powerful national bank." They claim that "Hamilton's thought was often far in advance of that of most of his contemporaries," as when he was early to advocate a national bank.

They quote Hamilton's 1781 statement that "in a National Bank alone we can find the ingredients to constitute a wholesome, solid and beneficial paper credit," and add: "He was correct." They call Hamilton's 1790 *Report on the Bank* "a masterpiece that cogently explained the importance of banks in a capitalist economy."

They credit Hamilton with the following argument, as though it made good sense: "Next, he stressed that all the great powers of Europe possessed public banks and were indebted to them for successful trade and commerce. The implications of the comparison were clear: if young America wanted to join the ranks of the elite powers, it too would have to create a banking infrastructure." In much the same way, Hamilton would elsewhere argue that if the leading European nations have protective tariffs, we should have them too. The error should be plain.

Hamilton modeled the Bank of the United States after the Bank of England. But in truth, the monopoly privileges of the BOE and other national banks of Europe were badges of mercantilism, and drags on financial and economic activity by comparison with free competition in banking services. A more wholesome, solid, and beneficial credit system could be observed in Scotland at the time, with free entry into nationwide branch banking. Hamilton's "masterpiece" was oblivious to the benefits of competition in banking, much less the separation of banking and state. In his banking policy views, as in his tariff policy views, Hamilton was a retrograde mercantilist.

Wright and Cowen note that in drafting his plan for the Bank, "Hamilton also drew on Adam Smith's seminal work, *An Inquiry into the Nature and Causes of the Wealth of Nations*, where financial matters, including the advantages of banks and bank money, were amply and ably discussed. Hamilton must have brimmed with excitement as he read Smith declare that 'the trade of Scotland has more than quadrupled since the first erection of the two publick banks at Edinburgh.'" They should also have noted that in his able discussion Smith — the penetrating Scottish critic of mercantilism — did not defend monopoly privileges in banking, but argued for free competition (see below).

The "publick" banks of Edinburgh were chartered non-exclusively (note that Smith refers to the two earliest; later there would be a third plus dozens of non-chartered joint-stock banks that were similarly sized and equally branched nationwide), and were completely privately owned. Nor were they great engines of the state, as the Bank of England was according to Smith. Unlike the BOE or the BUS, which were created in large part to lend the national government money, the Bank of Scotland was actually prohibited by its 1695 charter from lending to the government.

The policy conclusion of Smith's chapter on banking (Book II, chapter II of the *Wealth of Nations*) bears quoting here:

The late multiplication of banking companies in both parts of the United Kingdom, an event by which many people have been much alarmed, instead of diminishing, increases the security of the public. ... By dividing the whole circulation into a greater number of parts, the failure of any one company, an accident which, in the course of things, must sometimes happen, becomes of less consequence to the public. This free competition, too, obliges all bankers to be more liberal in their dealings with their customers, lest their rivals should carry them away. In general, if any branch of trade, or any division of labour, be advantageous to the public, the freer and more general the competition, it will always be the more so.

In light of Smith's clarity and correctness here, it is actually a telling *criticism* of Hamilton to note that he read Smith on banking, because it means that he ought to have known better when he promoted monopoly privileges. Although Hamilton's *Report on the Bank* alludes to Smith's understanding of how banking promotes the wealth of a nation, Hamilton either didn't understand Smith's policy message — the more banks competing the better — or rejected it as not helpful to his own mission of empowering the federal government, for which his chosen means was to forge an alliance between the government and a new privileged financial elite.[1] Smith's policy here was wise, and Hamilton's not.

In brief, contrary to what is nearly the conventional wisdom, Alexander Hamilton was not "far in advance" of contemporary thinking on banking. He was decidedly retrograde in pushing for an exclusive nationwide bank with a sweetheart government deal. He was not a creative policy genius so much as a persuasive second-hand dealer in discredited mercantilist ideas.

[1] Here I draw upon a dissertation chapter, unfortunately not available online, by Nicholas Curott.

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Governments Shouldn't Even Certify Schools, Much Less Run Them

by Corey DeAngelis

In his famous 1955 essay, "The Role of Government in Education," the venerated economist, Milton Friedman, proposed replacing our government-run system of schooling with a school choice voucher. Although, Friedman argued, the public interest in an educated citizenry meant that the government had a compelling interest in funding education, it did not necessarily follow that the government should also operate the schools.

Most critics of Friedman argued against his conclusion, preferring a centrally-planned school system to a market-based school system, but agreed with his argument that the government had a compelling interest in defining, mandating, and funding a minimum level of education.

However, I don't believe that government control of determining and funding this minimum level of education is economically favorable. Specifically, there are substantial costs for children and society as a whole tied to the attempt to reach a socially optimal level of education by force.

The Externality Problem

The argument for public financing of education (which we should refer to as schooling; something that is much different from what an education can be) is that there may be positive externalities associated with educated citizens.

In other words, without subsidization of schooling, individuals may consume schooling at an amount less than the social optimum. This may be true, but how can anyone determine what this "socially optimal" level is? In attempting to reach this imaginary level, we may do more harm than good. We may very well push consumption over this level and waste resources, especially since we compel all children to do so.

More importantly, by forcing all children to consume schooling, we are denying them the ability to consume other types of education. Though some children may benefit from 13 years of primary and secondary schooling, they may benefit more from a different combination of schooling and other educational activities.

The positive (or negative) externality argument can be made for any type of good or service. For example, I can argue that the automobile creates benefits that are experienced by the consumer and the rest of society. Society benefits from the automobile when I use the product since I can more-easily network with other individuals and spend my income on their goods.

If I can move from place to place at a lower cost, I can spread my experiences and knowledge more easily. The rest of society benefits from that. Therefore, subsidize automobiles. But that same product damages the environment through pollution. Therefore, tax automobiles.

Similar arguments can be made about any other product. Instead, we should accept the existence of externalities and consider the possibility that market failures may be more optimal than government failures. If any financing is to be publicly provided, it should be limited to the least-advantaged families. However, we should also realize that the education for the children from these families could also be financed voluntarily through charitable donations.

What is Minimum?

A forced "minimum level of education for all children" may sound good at first. Of course, children all deserve to have at least some minimum level of education. But how can we all agree on what that

minimum level of education is? Since all children are diverse, some may require an additional focus on mathematics and behavior, while others may need to focus on reading and citizenship.

Since all children are unique, we have an endless number of combinations of needs that bureaucrats must currently attempt to determine. Even with our best efforts put forth, we are guaranteed to come up with an extensive list of goals for this minimum level of education. In an attempt to make everyone happy, we provide all students the same type of comprehensive schooling. As a result, most children get a little bit of what they need (and a lot of what they don't) at a monumental cost.

Friedman states that the government could certify schools that meet "minimum standards" as they do with restaurants for minimum sanitary standards. Since this process is a barrier to market entry, it restricts the supply of schools, further increasing the price of schooling. The procedure itself also costs money and guarantees that the government will have a monopoly.

Since families are unique, even government employees with the best intentions will make approval decisions that are not optimal for all families. Instead, multiple private certification companies could determine the quality of schools. Ideally, we could then have families decide what schools best meet their unique criteria.

Even limited government intervention in the education system is not socially desirable. Though the limited intervention through finance and certification is well-intentioned, we should recognize the consequences of such policies. We should also recognize that the potential market failures may be more desirable than the current government failures in education.

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The Myth of "Macroeconomics"

by Ludwig von Mises

The authors who think that they have substituted, in the analysis of the market economy, a holistic or social or universalistic or institutional or macroeconomic approach for what they disdain as the spurious individualistic approach delude themselves and their public. For all reasoning concerning action must deal with valuation and with the striving after definite ends, as there is no action not oriented by final causes. It is possible to analyze conditions that would prevail within a socialist system in which only the supreme tsar determines all activities and all the other individuals efface their own personality and virtually convert themselves into mere tools in the hands of the tsar's actions. For the theory of integral socialism it may seem sufficient to consider the valuations and actions of the supreme tsar only. But if one deals with a system in which more than one man's striving after definite ends directs or affects actions, one cannot avoid tracing back the effects produced by action to the point beyond which no analysis of actions can proceed, i.e., to the value judgments of the individuals and the ends they are aiming at.

The macroeconomic approach looks upon an arbitrarily selected segment of the market economy (as a rule: upon one nation) as if it were an integrated unit. All that happens in this segment is actions of individuals and groups of individuals acting in concert. But macroeconomics proceeds as if all these individual actions were in fact the outcome of the mutual operation of one macroeconomic magnitude upon another such magnitude.

The distinction between macroeconomics and microeconomics is, as far as terminology is concerned, borrowed from modern physics' distinction between microscopic physics, which deals with systems on an atomic scale, and molar physics, which deals with systems on a scale appreciable to man's gross senses. It implies that ideally the microscopic laws alone are sufficient to cover the whole field of physics, the molar laws being merely a convenient adaptation of them to a special, but frequently occurring problem. Molar

law appears as a condensed and.¹ Thus the evolution that led from macroscopic physics to microscopic physics is seen as a progress from a less satisfactory to a more satisfactory method of dealing with the phenomena of reality.

What the authors who introduced the distinction between macroeconomics and microeconomics into the terminology dealing with economic problems have in mind is precisely the opposite. Their doctrine implies that microeconomics is an unsatisfactory way of studying the problems involved and that the substitution of macroeconomics for microeconomics amounts to the elimination of an unsatisfactory method by the adoption of a more satisfactory method.

The macroeconomist deceives himself if in his reasoning he employs money prices determined on the market by individual buyers and sellers. A consistent macroeconomic approach would have to shun any reference to prices and to money. The market economy is a social system in which individuals are acting. The valuations of individuals as manifested in the market prices determine the course of all production activities. If one wants to oppose to the reality of the market economy the image of a holistic system, one must abstain from any use of prices.

Let us exemplify one aspect of the fallacies of the macroeconomic method by an analysis of one of its most popular schemes, the so-called national income approach.

Income is a concept of the accounting methods of profit-seeking business. The businessman serves the consumers in order to make profit. He keeps accounts to find out whether or not this goal has been attained. He (and likewise also capitalists, investors, who are not themselves active in business, and, of course, also farmers and owners of all kinds of real estate) compares the money equivalent of all the goods dedicated to the enterprise at two different instants of time and thus learns what the result of his transactions in the period between these two instants was. Out of such a calculation emerge the concepts of profit or loss as contrasted with that of capital. If the owner of the outfit to which this accounting refers calls the

profit made "income," what he means is: If I consume the whole of it, I do not reduce the capital invested in the enterprise.

The modern tax laws call "income" not only what the accountant considers as the profit made by a definite business unit and what the owner of this unit considers as the income derived from the operations of this unit, but also the net earnings of professional people and the salaries and wages of employees. Adding together for the whole of a nation what is income in the sense of accountancy and what is income merely in the sense of the tax laws, one gets the figure called "national income."

The illusiveness of this concept of national income is to be seen not only in its dependence on changes in the purchasing power of the monetary unit. The more inflation progresses, the higher rises the national income. Within an economic system in which there is no increase in the supply of money and fiduciary media, progressive accumulation of capital and the improvement of technological methods of production that it engenders would result in a progressive drop in prices or, what is the same, a rise in the purchasing power of the monetary unit. The amount of goods available for consumption would increase and the average standard of living would improve, but these changes would not be made visible in the figures of the national income statistics.

The concept of national income entirely obliterates the real conditions of production within a market economy. It implies the idea that it is not activities of individuals that bring about the improvement (or impairment) in the quantity of goods available, but something that is above and outside these activities. This mysterious something produces a quantity called "national income," and then a second process "distributes" this quantity among the various individuals. The political meaning of this method is obvious. One criticizes the "inequality" prevailing in the "distribution" of national income. One taboos the question what makes the national income rise or drop and implies that there is no inequality in the contributions and achievements of the individuals that are generating the total quantity of national income.

If one raises the question what factors make the national income rise, one has only one answer: the improvement in equipment, the tools and machines employed in production, on the one hand, and the improvement in the utilization of the available equipment for the best possible satisfaction of human wants, on the other hand. The former is the effect of saving and the accumulation of capital, the latter of technological skill and of entrepreneurial activities. If one calls an increase in national income (not produced by inflation) economic progress, one cannot avoid establishing the fact that economic progress is the fruit of the endeavors of the savers, of the inventors, and of the entrepreneurs. What an unbiased analysis of the national income would have to show is first of all the patent inequality in the contribution of various individuals to the emergence of the magnitude called national income. It would furthermore have to show how the increase in the per-head quota of capital employed and the perfection of technological and entrepreneurial activities benefit—by raising the marginal productivity of labor and thereby wage rates and by raising the prices paid for the utilization of natural resources—also those classes of individuals who themselves did not contribute to the improvement of conditions and the rise in "national income."

The "national income" approach is an abortive attempt to provide a justification for the Marxian idea that under capitalism goods are "socially" (gesellschaftlich) produced and then "appropriated" by individuals. It puts things upside down. In reality, the production processes are activities of individuals cooperating with one another. Each individual collaborator receives what his fellow men—competing with one another as buyers on the market—are prepared to pay for his contribution. For the sake of argument one may admit that, adding up the prices paid for every individual's contribution, one may call the resulting total national income. But it is a gratuitous pastime to conclude that this total has been produced by the "nation" and to bemoan—neglecting the inequality of the various individuals' contributions—the inequality in its alleged distribution.

There is no nonpolitical reason whatever to proceed

with such a summing up of all incomes within a "nation" and not within a broader or a narrower collective. Why national income of the United States and not rather "state income" of the State of New York or "county income" of Westchester County or "municipal income" of the municipality of White Plains? All the arguments that can be advanced in favor of preferring the concept of "national income" of the United States against the income of any of these smaller territorial units can also be advanced in favor of preferring the continental income of all the parts of the American continent or even the "world income" as against the national income of the United States. It is merely political tendencies that make plausible the choice of the United States as the unit. Those responsible for this choice are critical of what they consider as the inequality of individual incomes within the United States—or within the territory of another sovereign nation—and aim at more equality of the incomes of the citizens of their own nation. They are neither in favor of a world-wide equalization of incomes nor of an equalization within the various states that form the United States or their administrative subdivisions. One may agree or disagree with their political aims. But one must not deny that the macroeconomic concept of national income is a mere political slogan devoid of any cognitive value.

[Excerpted from The Ultimate Foundation of Economic Science]

• I. A. Eddington, *The Philosophy of Physical Science* (New York and Cambridge, 1939), pp. 28ff.

Wells Fargo or the Federal Reserve: Who's the Bigger Fraud?

by Ron Paul

The Wells Fargo bank account scandal took center stage in the news last week and in all likelihood will continue to make headlines for many weeks to come. What Wells Fargo employees did in opening bank accounts without customers' authorization was obviously wrong, but in true Washington fashion, the

scandal is being used to deflect attention away from larger, more enduring, and more important scandals.

What Wells Fargo employees who opened these accounts engaged in was nothing more than fraud and theft, and they should be punished accordingly. But how much larger is the fraud perpetrated by the Federal Reserve System and why does the Fed continue to go unpunished? For over 100 years the Federal Reserve System has been devaluing the dollar, siphoning money from the wallets of savers into the pockets of debtors. Where is the outrage? Where are the hearings? Why isn't Congress up in arms about the Fed's malfeasance? It reminds me of the story of the pirate confronting Alexander the Great. When accused by Alexander of piracy, he replies "Because I do it with a small boat, I am called a pirate and a thief. You, with a great navy, molest the world and are called an emperor."

Over two thousand years later, not much has changed. Wells Fargo will face more scrutiny and perhaps more punishment. There will undoubtedly be more calls for stricter regulation, notwithstanding the fact that regulators failed to detect this fraud, just as they have failed to detect every fraud and financial crisis in history. And who will suffer? Why the average account holder of course.

Any penalties assessed against Wells Fargo will be made up by increasing fees on account holders. Clawbacks of bonuses, if they occur, will likely face resistance from the beneficiaries of those bonuses, leading to protracted and costly lawsuits. Even if the Wells Fargo CEO and top executives of Wells Fargo step down, the culture at Wells Fargo is unlikely to change anytime soon. As one of the largest banks in the world, Wells Fargo knows that it is not only too big to fail but also too big to prosecute. At the end of the day, no matter how much public posturing there is, Wells Fargo and the regulators will remain best buddies. And those regulators who failed to catch this fraud will be rewarded with more power and larger budgets, courtesy of the US taxpayer.

Through all of this, the Federal Reserve will continue its policy of low-interest rates and easy money.

Retirees who hoped to be able to live off the interest on their investments will find themselves squeezed by continued low-interest rates. Those living on fixed incomes will see their monthly checks buying less and less as the prices of food staples continue to rise. The fat cats on Wall Street will continue to have access to cheap and easy money while those on Main Street will face a constantly declining quality of life.

It is well past time for the Federal Reserve to face the same music as Wells Fargo and the bad actors on Wall Street. It is, after all, the Federal Reserve's creation of money out of thin air that enables all of this fraudulent behavior in the first place, so why should the Fed remain untouchable? Let's hope that someday Congress wakes up, hauls the Federal Reserve in for questioning, and puts as much pressure on the Fed as it does on private sector fraudsters.

How College Costs Lie to Us

by Hayden Padgett

When I graduated high school, my parents and I decided that I would go to community college before proceeding to university. This was to sharply reduce the cost of college (two years of tuition, rather than four), and thereby keep us from taking out college loans. Surprisingly, this economical choice is made by fewer students and parents each year, despite the ever-rising cost of a college degree.

Common sense seems to dictate that the more expensive college becomes, the fewer people will enroll and take on that financial burden. But that is not what currently happens; in fact, the opposite seems to occur. Why?

The Supply and Demand of Knowledge

In 1996, a year of private university tuition cost \$19,117 on average. In 2016, that increased to \$32,405 (a 70 percent increase). Similarly, a year of public university tuition cost \$4,399 in 1996, and raised to \$9,410 by 2016 (a 114 percent increase). At the same time, inflation increased 53 percent, meaning the cost of a public school rose twice as fast as inflation. Are college graduates today 114 percent better educated

than college graduates two decades ago? Doubtful, yet today's graduates pay tuition as if they are.

Students and their parents continue to pay for universities, both public and private. More correctly, students, their parents, and government loans pay. In 2000, 32 percent of students received a federal government loan, with an average loan amount of \$2,486. In 2014, that rose to 45 percent of students (a 41 percent total increase), with an average loan of \$4,531 (an 82 percent increase).

What is this money buying? Knowledge is a commodity, just like a coffee bean or an iPhone. Like any commodity, knowledge can be sold, and therefore has a price. That is why a professor has a job, and earns a salary for doing that job. The more knowledgeable the professor, the higher the salary.

Furthermore, universities are businesses, as are coffee shops and the Apple store, and knowledge is their commodity. Like those businesses, the knowledge that universities sell is subject to the law of supply and demand – the more people want something, the more expensive it becomes; the more that thing is made, the less expensive it becomes.

Universities have only a limited number of professors, or knowledge purveyors. As more students go to universities seeking knowledge (buying knowledge), universities will respond by increasing the amount of money it takes to be given that knowledge (selling knowledge).

By this economic law, there are only two ways to hold the price constant: 1) hire new professors faster than you admit new students (increase the supply of knowledge), or 2) admit fewer students (decrease the demand for knowledge). Since 1995, the total number of full-time professors in the United States increased by 44 percent. During the same time, total national enrollment increased by 43 percent.

This shows two things: universities have only added enough new professors to simply account for new students, and there are a lot more students. In other words, new supply has only kept up with new demand, and the imbalance remains.

To economists, this paradoxically implies that students and their parents do not believe that college is too expensive. Specifically, it indicates the benefits of paying for college outweigh rising costs. But that is not true, and it's the federal government's fault.

Encouraged by Illusion

Federal aid awards (federal loans) have kept pace with rising enrollment figures (41 percent increase and 43 percent increase, respectively). In so doing, the federal government has allowed students and their parents to largely ignore the rising cost of tuition. Rather than a student or parent having to pay 114 percent more for college today, federal loans allow that student or parent to only pay 33 percent more for college, a small price for "future job prospects."

The effect is that nothing keeps the price from going up. By its loans, the federal government (in conjunction with state governments) distort the cost-benefit analysis of college. Students and parents are shielded from the real cost of college, and never have to make the tough choices that result. The government is enabling – encouraging – poor decisions.

Experience shows that the law of supply and demand cannot be suspended, no matter how we wish it could. The price of a cup of coffee is only kept in check by people's willingness to pay that price – if Starbucks begins to sell a tall cup of coffee for \$4.39, fewer people will buy that coffee, and Starbucks will have to drop the price back to \$2.95. The same should be true for college, yet it is not, because the government makes it look as if that cup of coffee is only \$2.95, rather than \$4.39.

Therefore, the only way – the only real way – to reduce the cost of college is to stop lying to students and parents about it. Only if the real cost is made plain will families be able to make good decisions about whether college is worth it. Likely, many will find it is not, and that there are great job prospects to be had at much lower cost.

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VISION

By Leonard E. Read

Note - Frequent readers of BANKNOTES are aware of my relationship with Leonard E. Read and my admiration for his works during his lifetime. In the following issues I will be sharing his book, VISION, one chapter per month. It was written in 1978. What a privilege it was for me to know this great man! – R. Nelson Nash

Chapter 16

THE SHOW-OFF IS WAY OFF

Talent for talent's sake is a bauble and a show. Talent working with joy in the cause of universal truth lifts the possessor to new power as a benefactor. -EMERSON

Wrote Baltasar Gracian, the Spanish philosopher and satirist two centuries before Emerson:

The larger the number of gifts [talents] the less the need to affect any, for such would be vulgar insult to all of them.

What follows is an attempt to analyze Emerson's and Gracian's thoughts by seeking answers to these questions:

1. Why is the seeking of talent for talent's sake a bauble- "a showy but worthless thing"-or, as Gracian phrased it, "vulgar"?
2. Why does talent working with joy in the cause of universal truth make the practitioner thereof a benefactor?
3. And another point by Gracian: ". . . the man of discrimination will never exhibit his virtues, for it is through their very concealment that they awaken the interest of others." Is it valid?

Talent for talent's sake is no more than a showy and wordy thing; gross if the purpose be vulgar; evil if it be not high. To get away with piracy, thievery, hijacking, embezzlement and the like takes talent of sorts.

The same can be said about talents aimed at fame, notoriety, or fortune for fortune's sake. And observe

the kind of talent so prevalent in the news media-emphasizing the bad to the neglect of the good. Showy stuff!

And above all, note the political talent of getting votes: Say anything to gain or hold office and wield power over the citizenry.

On the other hand is the talent of working with joy in the cause of universal truth-Creation. Those who lead in acquiring and practicing this rare talent are, unquestionably, the highest-ranking benefactors of mankind. These few are capable, to some extent, of intercepting the Divine Intelligence and leading the rest of us in Creation's evolutionary direction. In the absence of such benefactors, mankind would still be at the level of the cave dwellers.

Universal truth, of course, is omnipresent. What unique talent is it that graces our benefactors, enabling them to intercept Truth? It is their preparation, their seeking, their desire to tune in and receive a bit of the Divine Intelligence. This is what lifts a talented one to the new power of a benefactor. Thus graced, each benefactor serves as a go between, or as Socrates labeled this talent, "a philosophical midwife." They receive from Heavenly sources and share with the few who can tune in and receive their enlightenments.

Emerson speaks of working with joy *in the cause of universal truth*. This spiritual man, certainly among our benefactors, goes on to explain:

We lie in the lap of immense intelligence which makes us receivers of its truth and organs of its activity. When we discern justice, when we discern truth, we do nothing of ourselves, but allow a passage of its beams.

This we should try to grasp: to allow a passage of its beams-to intercept the "immense intelligence"-is a skill that manifests itself only if the pursuit of universal truth be joyful. One cannot imagine a complacent or angry person rising to these intellectual, moral and spiritual heights. As was wisely observed long ago: "Everything that is leavened rises, and joy is the rational elevation or rising of the soul."

The bakers of bread know about leavening. But only

now and then do we come upon an individual-past or present-who realizes that the joyous seeking of universal truth is the yeast that determines how much bread-goods and services-shall grace mankind.

Bear in mind that there are two kinds of power-coercive and creative. The practitioners of coercive power are corrupted and degraded. But "talent working with joy in the cause of universal truth lifts the possessor to new power as a benefactor." More power to our benefactors!

Finally, to Gracian's point that the man of discrimination will never exhibit his virtues, *for it is through their very concealment that they awaken the interest of others*. Is it valid? If it is, then most of us devoted to the freedom way of life have a lot of homework to do.

What a show-off I have been in several fields, a virtual exhibitionist! There is an egotistical drive here: flaunting my five holes-in-one, displaying a book and numerous articles by experts proclaiming me a culinary artist, showing off LER's *Journal*, emphasizing not a missed day in over 26 years, and so on. All of this is, as Emerson asserted, "a bauble and a show." George Elder wrote, "When one talks incessantly about things accomplished, little time is left to do anything."

Suppose I were really a man of discrimination in these areas. What would my method be? Concealment! Shut up! Those who care will awaken and find out anything worth having.

Let a person be a superb golfer. He need not then be a braggart. Everyone interested in that sport will awaken to his skills and his record, holes-in-one or whatever. Further, countless thousands will seek his tutorship.

The same is true in the culinary field. Cook a better meal than others have experienced and they'll ask for your recipes. Concentrate on your cooking, however high your self-esteem. Being a show-off will give your guests a headache, if not a stomach-ache!

Golf, cooking and numerous other hobbies of my earlier years have been relegated to second place.

Further, because of Gracian's counsel, they'll arouse no more exhibitionism-never again!

What, now, comes first with me? Trying better to understand and explain the freedom philosophy. In this exalted ambition, I am not a show-off. I know next to nothing about it-and know it! And if that be talent, it is well concealed. Yet, as I joyously labor in this vineyard, receiving a thought now and then, improving a word or phrase, drawing on benefactors past and present, thinking of myself as a midwife-not as source-numerous other individuals are awakened and take off on their own.

Gracian's point is, indeed, valid! For evidence, observe so many of the individuals from several walks of life whose avowed aim is to "save free enterprise," and note how they assess themselves: theirs is the last word; they have all the answers-they think! Not the slightest humility or concealment-the omnipotent I! Show-offs and way off!

The main point of this thesis was pronounced 25 centuries ago in the Old Testament book of *Isaiah*. The late Albert Jay Nock wrote a brilliant paraphrase of this wisdom¹ Those few who really count are unknown-The Remnant. They will have nothing to do with anyone bent on reforming others. Instead, they are awakened and attracted *only* to those who are seeking light, that is, devoted to their own enlightenment.

Let us then work with joy in the cause of universal truth and acquire that new power which makes us benefactors. By so doing, we will serve Creation at the Heavenly and earthly levels. And that's as high as man can go!

¹ See Notes from FEE, July 1962 entitled "Isaiah's Job."

Nelson's Newly Added Book Recommendations

<https://infinitebanking.org/books/>

Family of Secrets: The Bush Dynasty, America's Invisible Government, and the Hidden History of the Last Fifty Years by Russ Baker

**Nelson's Live Seminars & Events
for October & November 2016**
<http://infinitebanking.org/seminars/>

Nelson Nash Seminar in Framingham, MA

October 7-8, 2016

Contact Nancy Jackson

817-239-6441 nancy@bcbstexas.com

Nelson Nash in Louisville, KY

October 15, 2016

Contact Kick Kosko

502-608-3221 Nick.kosko@oldkyins.com

Fort Worth, TX Nelson Nash Seminar

October 21-22, 2016,

Contact Julee Neathery

817-790-0405 julee@bankingwithlife.com

<http://jamesneathery.com/>

Nelson live at the IBC Work Shop Spokane, WA

October 29, 2016

Attendees can register by automated phone response

at: 888-902-3011 x 3949 or on line at: www.sendrsvp.com/smartwealthradio or they can call:

509-455-7888 or email: info@smartwealthradio.com

to request registration information

Nelson Nash Live at the Freedom Advisor Live Experience, St Louis, MO

November 15-17, 2016

This event is for FINANCIAL PROFESSIONALS.

It is hosted by e3 Marketing, an NNI affiliate. For

more information, please review the Freedom

Advisors Live Event landing page [HERE](#). Online

registration link is located [HERE](#)

Nelson Nash Live Seminar in Bismarck, ND

November 29, 2016

Contact Mindy Backsen or Mary Jo Irmen (701)

751-3917 or email mindy@fiscalbridge.com

or maryjo@fiscalbridge.com

Welcome the newest IBC Practitioners
<https://www.infinitebanking.org/finder/>

The following financial professionals joined or renewed their membership to our ***Authorized Infinite Banking Concepts Practitioners*** team this month:

- Winnie Lau -Edmonton, AB
- Joseph Pantozzi - Las Vegas, NV
- Robert Zuniga - Davidson, NC
- William Lenderman III - El Paso, TX
- John Montoya - Dublin, CA
- Thomas Laune - Nashville, TN
- Kenneth Lester - Atlanta, GA
- David Cheatham - St. Charles, IL
- John Stewart- Salt Lake City, UT
- Robert Thornton - DeBary, FL
- Ron Campbell - Glen Burnie, MD
- Joseph Quartucci - Austin, TX
- Grant Thompson - Amarillo, TX
- Jack Burns - Algona, IA
- Karen Powell - Atlanta, GA
- Nick Morgan - Jackson, MS
- Darryl Ho - New Westminster, BC
- Patrick Eddins - St. Louis, MO

You can view the entire practitioner listing on our website using the Practitioner Finder.

IBC Practitioner's have completed the *IBC Practitioner's Program* and have passed the program exam to ensure that they possess a solid foundation in the theory and implementation of IBC, as well as an understanding of Austrian economics and its unique insights into our monetary and banking institutions. The *IBC Practitioner* has a broad base of knowledge to ensure a minimal level of competency in all of the areas a financial professional needs, in order to adequately discuss IBC with his or her clients.