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BankNotes

NELSON NASH MONTHLY NEWSLETTER

The Liquidity of the Life Insurance Industry

by L. Carlos Lara

Highly profitable companies can run into financial trouble if they don't have the liquidity to react to unforeseen events. Even companies with a stockpile of assets on their balance sheets will struggle with cash flow issues when markets crash if those assets are illiquid. In a moment of crisis, assets are of no value if they cannot easily be converted to cash The Liquidity of the Life Insurance Industry Since I am familiar with these ratios and often use them to study company balance sheets, I have been most impressed with the liquidity measurements I have seen in the life insurance industry. in order to save the company.

This one contingency—*the liquidity factor*—is the main reason corporate analysts often make use of liquidity ratios when analyzing a company's financial strength. What they are examining is the ease with which a company can meet its financial obligations with the liquid assets available to them. A company can seem very solvent in normal times, and have a big cushion of shareholder equity, but if a crisis hits and the assets are very long-term and illiquid while the liabilities were short term then the company could become insolvent quickly.

Since I am familiar with these ratios and often use them to study company balance sheets, I have been most impressed with the liquidity measurements I have seen in the life insurance industry. Their ratios are significantly stronger and more conservative than any other major money intermediary in our entire economy.

The structure of their balance sheets is perhaps the main reason why historically the life insurance industry has shown incredible resilience in the midst of the two worst financial catastrophes in modern history—the Great Depression of the 1930s and the 2008 financial crisis. So impressed are we with this fact that Robert and I have written extensively on this subject numerous times in the LMR. (For example, see the April 2012, August 2012, January 2013, April 2013, May 2014, and October 2014 issues of the LMR for articles dealing with the relative strength of the insurance sector.)

IN THIS MONTH'S ISSUE:

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DOES THE LOW-INTEREST RATE ENVIRONMENT MAKE A DIFFERENCE?

Regardless of the impressive historical record, there has been a growing concern within the last few years about the current financial stability of the life insurance industry in light of our unprecedented low interest rate environment. Quite frankly, I can understand why, and the concern expressed is logical. After all, life insurance companies do have the bulk of their assets invested in bonds (70% as of 2014), and the products life insurers offer are particularly dependent on the interest rate yields of these bonds. Consequently, not only is this a good question that deserves a good answer, but the LMR should be the first to address it since we advocate the stability of the insurance sector so fervently.

Let me begin to answer this worry by stating at least this much right now. Although it's true that this extended low interest rate environment has indeed put extra stress on the earnings of life insurance companies these last seven years, our research continues to reveal that it has not materially impacted their solvency. In fact their financial strength is as resilient as ever. In the remaining parts of this article I will explain why and also how life insurance companies are able to continue to retain their staying power.

SUMMARY OF THE MONETARY INTERVENTION BY THE FEDERAL RESERVE

The Federal Reserve is the chief instigator of our low interest rate environment. Since 2008 it has been on a campaign aimed at stimulating economic growth by deliberately pushing down the market rate of interest to historic lows. One of its most aggressive activities has been to purchase a massive amount of assets, which has effectively pushed down the fed fund rate to zero. These open market operations, known as "quantitative easing (QE)," have ballooned the size of the Fed's balance sheet to over $4.5 trillion. According to the Center for Insurance Policy and Research (CIPR) in a newsletter dated 2014: "the 10-year Treasury plunged from a yield of 4.68% at the start of 2007 down to 1.38% in July of 2012."[1]

Even though it was back up to 3.04% at the end of 2013, the 10-year Treasury has come back down again to 1.84%2 this month, while the economy has remained anemic. The Fed's commitment under Chairman Yellen is to continue to keep interest rates low until stronger signs of economic recovery become more evident. Unfortunately, this prolonged strategy will continue to have an unpleasant impact on Life insurers and there is no way around this particular part of the problem at this time.

TOP RATING AGENCIES GIVE LIFE INSURANCE COMPANIES A THUMBS UP

Nevertheless, most market analysts still hold a very positive outlook for life insurance companies regardless of the low interest rate environment. In a recent (2015) end of the year announcement Moody's predicted a stable 2016 outlook for life insurers.3 Fitch had an almost identical outlook for life insurers claiming that "Fitch's stable outlook considers the industry's very strong balance sheet fundamentals, strong liability profile, and stable operating performance," and it continues to view "… the industry's liquidity profile as strong."4 Not to be outdone Standard & Poor's (S&P) also gave life insurance companies a thumbs up in their report for 2016 by saying that, "US life insurers can weather the storm!"5 Obviously, the top three rating agencies are very positive about the life insurance sector. Perhaps we should also mention here that approximately 50% of the life insurance industry's bond portfolio is made up of investment grade corporate bonds, which have a current yield of 3.6%. In other words, it's not all Treasuries. Lower yielding assets that mature can and are often rolled over into new conservative higher yielding investments of this type, which can improve the investment portfolio of life insurance carriers without going into riskier investments. Furthermore, the quality of these bond investments adds to their liquidity. Short of a currency crisis, they can be converted to cash quickly.

Still, this all seems paradoxical that credible sources such as Moody's, Fitch, and Standard & Poor's can be so optimistic about the life insurance industry in light of such prolonged interest rate lows. But before I explain why there is so much optimism among these analysts, let's first be certain we understand exactly where the damaging effects of the low interest rates are impacting the life insurance companies.

THE TOWERS WATSON LIFE INSURANCE CFO SURVEY

In a recent survey conducted by Towers Watson, a global professional services firm specializing in risk management, life insurance CFOs were interviewed about their primary business concern. All participants (97%) stated that the prolonged low interest rate environment was their number one chief concern.6 Here's why:

"*Life insurer's earnings are typically derived from the spread between their investment returns and what they credit as interest on insurance policies and products. If their contractually guaranteed obligations exceed achievable returns in the capital markets for a certain length of time, life insurers' ability to meet expectations can be greatly reduced." —The Center for Insurance Policy and Research (CIPR)*[7]

Adding to this, a recent National Association of Insurance Commissioners (NAIC) Study of the annual financial statements of 713 life insurance companies from the periods 2007-2014 clearly indicated a squeeze in the spread between the net investment portfolio yield and the guaranteed interest rate to policy holders. Investment net spreads actually declined 55 basis points during this seven-year period or what amounted to approximately $14.2 billion in lost spread revenue per year. **(SEE: Slide 4 from the NAIC Study)**[8]

So what we see is that the pressure being felt from the low interest rate environment for life carriers is in their spread revenue. Keep in mind that actuaries discount all future events at some implicit rate, and therefore present assets—even "safe" ones—must generate a return in order to meet future obligations. Consequently, any damaging effects to earnings would most certainly concern a life insurance CFO.

EARNINGS COMPRESSION VS. RESERVES

It's interesting to note that most life insurance portfolios have come out of the higher yielding bonds of the past and now have rolled into the current yields of 5% on average according to the NAIC study. (**SEE: Slide 6 & 7 from NAIC Study)** What is still being credited back to many policyholders is nearing almost the same interest rate earned in the capital markets. This is where the earnings compression is coming from.

Fortunately, minimum valuation interest rates going forward on new policies are determined each calendar year and locked in at policy issue. After that they do not change. These minimum interest valuations over the last six years have been gradually adjusting downward in order to relieve some of this earnings compression.

But the interest credited back to policies is still generally greater than any other interest rate offered by a similar type of safe investment in the market place, such as a bank certificate of deposit (CD), or similar vehicle. This is one reason why under this low interest rate environment new business continues to pour into the insurance sector and why those savers who are already inside the insurance sector stay inside.

Now comes one of the most important and unique attributes of life insurance companies. The principal liabilities on life insurers' balance sheets are actually policy reserves— assets that are held in custody for policyholders to cover all present and future claims. The establishment of reserves is by law purposefully conservative in the sense that they usually result in an overstatement of future expected claim costs. This necessarily creates excess funds, which are invested for a profit and create additional reserve cushioning.

We see this more specifically in the pricing of life insurance products where there is not only an investment-spread margin, but also a spread margin on an expense component and a mortality component. All of which are calculated greater than actually experienced by insurers and serve to create the extra surplus.

The $14.2 billion dollar spread loss per year (2007-2014), occurred against average reserves of $2.60 trillion. "While this is significant, the life insurance industry is still in a position of positive net investment income spread. Consequently, the period of the low interest rate environment created spread compression on earnings, but it did not materially impact the life insurers' solvency." CIPR Newsletter, July 2014 **(SEE: Slide 3 from NAIC Study**)[9]

THE KEY TO MITIGATE RISK IN A LOW INTEREST RATE ENVIRONMENT

The life insurance industry's ability to manage the ongoing structure of their assets and liabilities is accomplished by the employment of future planning "cash-flow analysis." It is these asset liability management (ALM) programs10 that not only help insurers mitigate low interest rate risk, but also prepares them for the rise in interest rates when they come.

In the current low interest rate environment earnings compression necessarily pushes statutory reserves on all new policy issues. Therefore, future cash flow planning is not only essential, but it is a required statutory valuation law. Companies must perform an annual cash flow testing exercise by building a financial model of all of their inforce assets and liabilities and then matching them together.

What happens next is nothing short of astounding. The company must then run the financial model out several years, generally five to ten years, until any remaining in-force liability at the end of the projection is insignificant. This is done using different interest rate scenarios and at least seven of those interest rate scenarios are provided by state insurance regulators known as "the New York 7." This amounts to 1,000+ scenario calculations. If the chief actuary determines a significant amount of mismatch exists between the assets and liabilities of the company, an additional reserve amount must be posted to cover any interest rate risk embedded in their balance sheets.

These ongoing stress tests and especially the establishment of additional reserves are key components that serve to continue to fortify the financial strength of life insurers. A conclusion that is consistent with the recent optimistic outlook given to the life insurance industry by the three largest rating agencies of financial institutions.

CONCLUSION

Despite the unusual and prolonged low interest rate environment, which many experts now agree has been grievously ineffective and damaging to the economy, it is reassuring to know that the overall financial strength found in the life insurance sector coupled with their sound management techniques continue to make them resilient against major economic shocks. They have met this challenge two other times before and the confidence in them remains positive. In essence "they can weather the storm," as the S&P rating agency announced.

What we must understand when we study statistical information such as this is that underneath it all we live in an economic world where our government officials are dead set against savings and are very supportive of the investment markets. Yet most prudent analysts now see these investment markets due for a major correction. There is worry that investors will flee from these investment markets in mass. This is why we believe government laws, such as Dodd-Frank and the more recent DOL ruling, are attempting to keep investors "in the market."

As a matter of interest, the CFO Survey revealed one other intriguing fact. In addition to the low interest rate environment being a major concern, the interviews also revealed that "(87%) of them believed that there was a 50% or greater likelihood of a major disruption to the economy in the next 18 months. 27% believed that there was a 75% likelihood of a major disruption and 7% saying it was almost certain."[10]

Whether these sentiments have lessened or increased since this survey was taken is difficult to tell. But chances are they have not abated, and the concern has probably increased. It remains to be seen when exactly the financial market crash will actually hit. But if the crisis to come is as severe as many predict it will be, the life insurance industry has a much greater chance of surviving it than other major financial institutions.

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Slide 3 from the NAIC Study

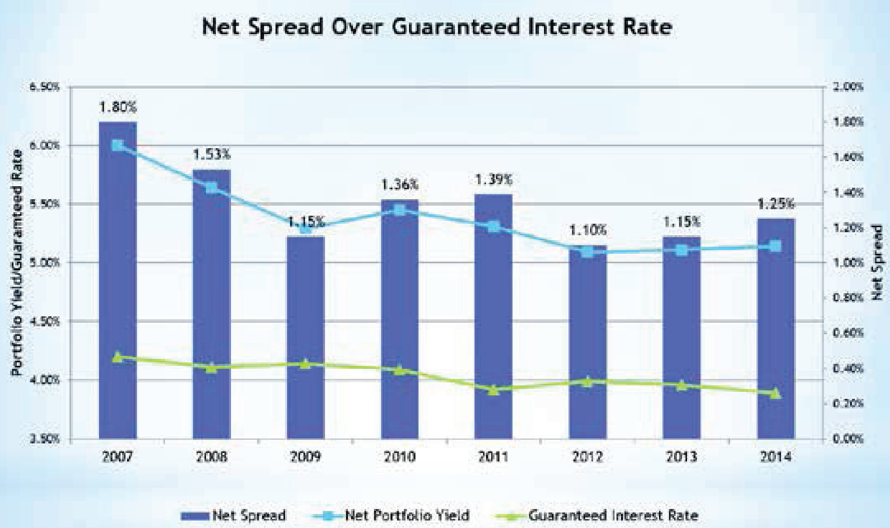
NAIC - Annual Statement Data (713 Life Companies)

Year	Total Reserve ($ Trillions)	Net Asset Portfolio Yield	Guaranteed Valuation Interest Rate	Spread	Spread Revenue ($ Billions)	Cumulative Spread Lost Revenue/Profit Since 2007 ($Billions)
2007	2.10	6.00%	4.20%	1.80%	37.8	-
2008	2.30	5.64%	4.11%	1.53%	35.2	(6.2)
2009	2.46	5.29%	4.14%	1.15%	28.3	(22.2)
2010	2.57	5.45%	4.09%	1.36%	35.0	(33.5)
2011	2.74	5.31%	3.92%	1.39%	38.1	(44.7)
2012	2.78	5.09%	3.99%	1.10%	30.6	(64.2)
2013	2.88	5.11%	3.96%	1.15%	33.1	(82.9)
2014	2.99	5.14%	3.89%	1.25%	37.4	(99.4)
2014 - 2007 Ave	2.60	-.86%	-.31%	-.55%		(14.2)

3

Slide 4 from the NAIC Study

NAIC - Life Insurance Annual Statement Data (713 Companies)

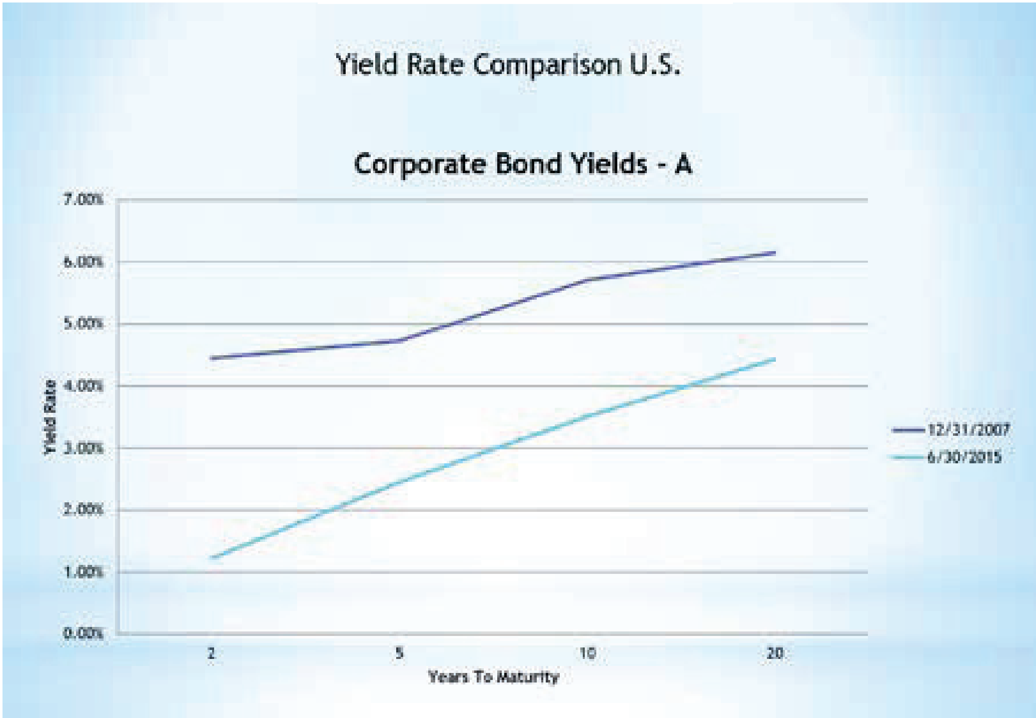


2007 Through 2014 Summary

- Net Portfolio Yield declined 86 basis points, while guaranteed reserve rate declined 31 basis points.
- Resulting in a Spread decline of 55 basis points (86 - 31).
- A 55 basis point decline in spread on an average reserve of $2.60 Trillion
- Results in $14.2 Billion Loss in Revenue per year for the last 7 years

4

Slide 6 from the NAIC Study



Slide 7 from the NAIC Study

Life Industry: Maturity Distribution Of Bonds

	2011	2012	2013	2014
0-1 Years	9.2%	10.4%	8.6%	8.8%
1-5 Years	27.0%	26.3%	25.3%	24.2%
5-10 Years	29.1%	28.9%	30.5%	30.6%
10-20 Years	14.3%	14.2%	15.1%	15.4%
20+ Years	20.5%	20.2%	20.7%	20.9%

Life Industry: Credit Quality of Bonds

	2011	2012	2013	2014
AAA to A-	65.0%	62.9%	61.7%	62.5%
BBB+ to BBB-	28.4%	30.8%	32.4%	31.4%
Below IG	6.6%	6.3%	6.0%	6.0%

How Teaching Interferes with Learning

by Peter Gray, Ph.D.

In a survey we conducted a few years ago, Gina Riley and I asked unschooling families to name the writers whose works had influenced them most in their decision to take that route. John Holt was by far the most often cited, named by more than half of the 232 families in the survey (see here or here). Holt died in 1985, of cancer at the too-young age of 62. Yet he continues to exert great influence.

My colleague Pat Farenga, who has managed Holt's legacy ever since his death, recently oversaw the publication of the 50th-anniversary edition of what to me is Holt's most significant book, *How Children Learn* (Da Capo Press, 2017). I read the first edition decades ago, without full appreciation, before I had begun my own research into children's learning.

Rereading the book now led me repeatedly to think, *How true, How brilliant, How sad*. Sad because these true facts and brilliant insights are still understood by only a small percentage of the population, and our schools are now even worse than they were when Holt was alive. They are even more anxiety provoking, more wasteful of young people's time, more insulting of young people's intelligence, and more disruptive of deep learning and understanding.

But yet I'm optimistic, as I think Holt might be if he were alive today, because even though the percentage who understand that children learn best when allowed to control their own learning remains small, that percentage is growing. It is reflected in the ever-increasing number of families who are choosing to take their children out of standard schools for Self-Directed Education or something close to it.

A growing number of parents are seeing the light of children's brilliance and are choosing to allow it to shine. Eventually, I think, we will reach a tipping point, where the rate of school-leaving accelerates sharply. Then what we now call standard schooling will die of irrelevance, replaced by centers designed to optimize children's natural ways of learning (see here or here).

Some of Holts's Insights into Children's Learning

Holt was an astute and brilliant observer of children. If he had studied some species of animal, instead of human children, we would call him a naturalist. He observed children in their natural, free, might I even say wild condition, where they were not being controlled by a teacher in a classroom or an experimenter in a laboratory. This is something that far too few developmental psychologists or educational researchers have done. He became close to and observed the children of his relatives and friends when they were playing and exploring, and he observed children in schools during breaks in their formal lessons. Through such observations, he came to certain profound conclusions about children's learning. Here is a summary of them, which I extracted from the pages of *How Children Learn*.

• Children don't choose to learn in order to do things in the future. They choose to do right now what others in their world do, and through doing they learn.

Schools try to teach children skills and knowledge that may benefit them at some unknown time in the future. But children are interested in now, not the future. They want to do real things now. By doing what they want to do they also prepare themselves wonderfully for the future, but that is a side effect. This, I think, is the main insight of the book; most of the other ideas are more or less corollaries.

Children are brilliant learners because they don't think of themselves as learning; they think of themselves as doing. They want to engage in whole, meaningful activities, like the activities they see around them, and they aren't afraid to try. They want to walk, like other people do, but at first, they aren't good at it. So they keep trying, day after day, and their walking keeps getting better. They want to talk, like other people do, but at first, they don't know about the relationships of sounds to meanings. Their sentences come across to us as babbled nonsense, but in the child's mind, he or she is talking (as Holt suggests, on p 75). Improvement comes because the child attends to others' talking, gradually picks up some of the repeated sounds and their meanings, and works them into his or her own utterances in increasingly appropriate ways.

As children grow older they continue to attend to others' activities around them and, in unpredictable ways at unpredictable times, choose those that they want to do and start doing them. Children start reading, because they see that others read, and if they are read to they discover that reading is a route to the enjoyment of stories. Children don't become readers by first learning to read; they start right off by reading. They may read signs, which they recognize. They may recite, verbatim, the words in a memorized little book, as they turn the pages; or they may turn the pages of an unfamiliar book and say whatever comes to mind. We may not call that reading, but to the child, it is reading. Over time, the child begins to recognize certain words, even in new contexts, and begins to infer the relationships between letters and sounds. In this way, the child's reading improves.

Walking, talking, and reading are skills that pretty much everyone picks up in our culture because they are so prevalent. Other skills are picked up more selectively, by those who somehow become fascinated by them. Holt gives an example of a six-year-old girl who became interested in typing, with an electric typewriter (this was the 1960s). She would type fast, like the adults in her family, but without attention to the fact that the letters on the page were random. She would produce whole documents this way. Over time she began to realize that her documents differed from those of adults in that they were not readable, and then she began to pay attention to which keys she would strike and to the effect this had on the sheet of paper. She began to type very carefully rather than fast. Before long she was typing out readable statements.

You and I might say that the child is learning to walk, talk, read, or type; but from the child's view that would be wrong. The child is walking with the very first step, talking with the first cooed or babbled utterance, reading with the first recognition of "stop" on a sign, and typing with the first striking of keys. The child isn't learning to do these; he or she is doing them, right from the beginning, and in the process is getting better at them.

My colleague Kerry McDonald made this point very well recently in an essay about her young unschooled daughter who loves to bake (here). In Kerry's words, "When people ask her what she wants to be when she grows up, she responds breezily, 'A baker, but I already am one.'"

• Children go from whole to parts in their learning, not from parts to whole.

This clearly is a corollary of the point that children learn because they are motivated to do the things they see others do. They are, of course, motivated to do whole things, not pieces abstracted out of the whole. They are motivated to speak meaningful sentences, not phonemes. Nobody speaks phonemes. They are motivated to read interesting stories, not memorize grapheme-phoneme relationships or be drilled on sight words.

As Holt points out repeatedly, one of our biggest mistakes in schools is to break tasks down into components and try to get children to practice the components isolated from the whole. In doing so we turn what would be meaningful and exciting into something meaningless and boring. Children pick up the components (e.g. grapheme-phoneme relationships) naturally, incidentally, as they go along in their exciting work of doing things that are real, meaningful, and whole.

• Children learn by making mistakes and then noticing and correcting their own mistakes.

Children are motivated not just to do what they see others do, but to do those things well. They are not afraid to do what they cannot yet do well, but they are not blind to the mismatches between their own performance and that of the experts they see around them. So, they start right off doing, but then, as they repeat what they did, they work at improving.

In Holt's words (p 34), "Very young children seem to have what could be called an instinct of Workmanship. We tend not to see it, because they are unskillful and their materials are crude. But watch the loving care with which a little child smooths off a sand cake or pats and shapes a mud pie." And later (p 198), "When they are not bribed or bullied, they want to do whatever they are doing better than they did it before."

We adults have a strong tendency to correct children, to point out their mistakes, in the belief that we are helping them learn. But when we do this, according to Holt, we are in effect belittling the child, telling the child that he or she isn't doing it right and we can do it better. We are causing the child to feel judged, and therefore anxious, thereby taking away some of his or her fearlessness about trying this or any other new activity. We may be causing the child to turn away from the very activity that we wanted to support. When a child first starts an activity, the child can't worry about mistakes, because to do so would make it impossible to start. Only the child knows when he or she is ready to attend to mistakes and make corrections.

Holt points out that we don't need to correct children because they are very good at correcting themselves. They are continually trying to improve what they do, on their own schedules, in their own ways. As illustration, Holt described his observation of a little girl misreading certain words as she read a story aloud, but then she corrected her own mistakes in subsequent re-readings, as she figured out what made sense and what didn't. In Holt's words (p 140), *"Left alone, not hurried, not made anxious, she was able to find and correct most of the mistakes herself."*

• Children may learn better by watching older children than by watching adults.

Holt points out that young children are well aware of the ways that they are not as competent as the adults around them, and this can be a source of shame and anxiety, even if the adults don't rub it in. He writes (p 123), "Parents who do everything well may not always be good examples for their children; sometimes such children feel, since they can never hope to be as good as their parents, there is no use in even trying."

This, he says, is why children may learn better by watching somewhat older children than by watching adults. As one example, he describes (p 182) how young boys naturally and efficiently improved their softball skills by observing somewhat older and more experienced boys, who were better than they but not so much better as to be out of reach. This observation fits very well with findings from my research on the value of age-mixed play (see here and here).

• Fantasy provides children the means to do and learn from activities that they can't yet do in reality.

A number of psychologists, I included, have written about the cognitive value of fantasy, how it underlies the highest form of human thinking, hypothetical reasoning (e.g. here). But Holt brings us another insight about fantasy; it provides a means of "doing" what the child cannot do in reality. In his discussion of fantasy, Holt criticizes the view, held by Maria Montessori and some of her followers, that fantasy should be discouraged in children because it is escape from reality. Holt, in contrast, writes (p 228), "Children use fantasy not to get out of, but to get into, the real world."

A little child can't really drive a truck, but in fantasy, he can be a truck driver. Through such fantasy, he can learn a lot about trucks and even something about driving one as he makes his toy truck imitate what real trucks do. Holt points out that children playing fantasy games usually choose roles that exist in the adult world around them. They pretend to be mommies or daddies, truck drivers, train conductors, pilots, doctors, teachers, police officers, or the like. In their play, they model, as close as they can, their understanding of what adults in those roles do. I have learned from anthropologists that such fantasy is normal for children everywhere. For example, young hunter-gatherer boys imagine themselves to be courageous big game hunters as they stalk butterflies or small rodents and try to hit them with their small arrows. They are practicing what it feels like to be a hunter, and they are also developing real hunting skills. That is so much more exciting than, say, engaging in target practice.

This point about fantasy is another elaboration of Holt's main point that children learn by doing what they want to do right now, not by practicing for the future. In fantasy, the child can, right now, do things that nature or authority won't permit him or her to do in reality.

• *Children make sense of the world by creating mental models and assimilating new information to those models.*

As children interact with the world their minds are continually active. They are trying to make sense of things. Holt points out, as have others (including, most famously, Piaget), that children are truly scientists, developing hunches (hypotheses) and then testing those hunches and accepting, modifying, or rejecting them based on experience. But the motivation must come from within the child; it can't be imposed. As an illustration, Holt describes cases where children who were allowed to just "mess around" with balance beams and pendulums, when they wanted to, learned much more, in a lasting way, about the natural laws of balance and pendulum action than did those who were taught explicitly.

Children often use mental models that they developed from previous activities to help them make sense of new activities. Holt gives a wonderful example of a boy who loved trains and knew a lot about them. When this boy began to get interested in reading he noticed that a printed sentence is like a train, with a front end and a back end, going in a certain direction. He called the capital letter at the beginning the "engine" and the period at the end the "caboose." This model, of course, was one uniquely useful to this boy. Among other things, it helped him transfer his love of trains into a love of reading. But the model had to come from the boy himself. If a teacher had imposed it on him, it would probably have come across to him as artificial and would have subverted his own attempt to make sense of sentences. And if a teacher tried to use this analogy between a sentence and a train in teaching children who had no particular interest in trains, that would be just silly.

How Teaching Interferes with Children's Learning

When Holt wrote the first edition of *How Children Learn* (published in 1967), he was still trying to figure out how to become a better teacher. When he revised the book for the second edition (published in 1983) he inserted many corrections, which revealed his growing belief that teaching of any sort is usually a mistake, except in response to a student's explicit request for help. Here, for example, is one of his 1983 insertions (p 112): "When we teach without being asked we are saying in effect, 'You're not smart enough to know that you should know this, and not smart enough to learn it." And a few pages later (p 126), he inserted, "The spirit of independence in learning is one of the most valuable assets a learner can have, and we who want to help children's learning at home or in school, must learn to respect and encourage it."

Children naturally resist being taught because it undermines their independence and their confidence in their own abilities to figure things out and to ask for help, themselves, when they need it. Moreover, no teacher — certainly not one in a classroom of more than a few children — can get into each child's head and understand that child's motives, mental models, and passions at the time. Only the child has access to all of this, which is why children learn best when they are allowed complete control of their own learning. Or, as the child would say, when they are allowed complete control of their own doing.

Reprinted from *Psychology Today*

Peter Gray, Ph.D., a research professor at Boston College, is the author of Free to Learn (Basic Books, 2013) and Psychology (Worth Publishers, a college textbook now in its 7th edition). He has conducted and published research in comparative, evolutionary, developmental, and educational psychology. He did his undergraduate study at Columbia University and earned a Ph.D. in biological sciences at Rockefeller University. His current research and writing focus primarily on children's natural ways of learning and the life-long value of play. His own play includes not only his research and writing, but also long-distance bicycling, kayaking, back-woods skiing, and vegetable gardening.

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Insider Trading Laws: Ruining Lives and Markets

By Douglas French

Men who have occupied the seat of United States Attorney for the Southern District of New York have portrayed themselves in recent years as protectors of the investing public. Through the use of insider trading laws, which only came into effect in 1968, Rudy Giuliani, and most recenting Preet Bharara, have touted themselves as the "Sheriff of Wall Street."

Time magazine featured Bharara on a 2012 cover with the title "This Man is Busting Wall Street" for the hundreds of cases of insider trading suits he brought and his 85 case winning streak that ended after more than five years on the job.

If he didn't win in the courtroom, Bharara still managed to ruin lives and careers. David Ganek, who founded now-defunct hedge fund Level Global, was never charged, but his firm didn't survive the negative publicity from Bharara's raid of his firm.

"This is a dangerous day for private citizens and a great day for ambitious, attention-seeking prosecutors who are now being rewarded with total immunity even when they lie and leak," Ganek told the NY Post after shutting his firm down four months after the Southern District's roust.

Leaking and lying is how justice was served by Bharara who was fired last May. In the case against gambler, businessman, and philanthropist, Billy Walters, Chief FBI agent for Wall Street Investigations, David Chaves, admitted that he jump-started a dormant case against Walters with leaks to the Wall Street Journal and New York Times, and, "in exchange he would 'from time to time' receive updates from one reporter on what she had learned about the Walters case," writes John Fund. "He also claimed that Bharara's U.S. Attorney's Office knew of the meeting between reporters and the senior FBI agents."

Just who were the victims of these supposed insider-trading crimes? Bharara nor any of his predecessors, were required to identify any victims.

In sentencing Mr. Walters, Judge U.S. District Judge P. Kevin Castel said "Billy Walters is a cheater and a criminal, and not a very clever one."

However, only the thuggish legal system believes insider-trading is cheating. Economist Murray Rothbard, speaking to the Michigan Libertarian Party Convention in 1989, pointed out, "knowing more than the other guy is what free enterprise is, whether it's the stock market or business in general. Knowing more than the other guy, being an entrepreneur and profiting from it."

Insider-trading laws are a "direct assault on free markets, free enterprise, and private property rights," Rothbard continued. "It's a victimless crime, much like prostitution and drugs."

Trading by insiders actually helps the economy, Rothbard said, "by syphoning assets to the most efficient people, who know more than the inefficient clucks."

Unfortunately, the public doesn't understand this arbitrary and capricious violation of rights, clamouring for even harsher punishment than what a U.S. attorney pursues. The average man on the street, Rothbard explains, believes Wall Streeters "should be locked up and throw away the key. They're rich, who cares about their property rights."

While insider trading sounds nefarious at worst and unfair, at a minimum. Philosopher Tibor Machan, wrote that what counts most for the morality of trade is respect for individual rights, not fairness. "Within the framework of such respect, insider trading is entirely unobjectionable. In addition, it can be perfectly ethically, commendable, to act based on such information: it is a matter of prudence and commercial savvy, both of which should be encouraged from those who work for a living."

Economists recognize that allowing those with inside information to trade on it makes the market more efficient. With their trades, their information becomes reflected in a stock's price. Nobel Prize winning economist Milton Friedman wrote, "You should want more insider trading, not less. You want to give the people most likely to have knowledge about deficiencies of the company to have the incentive to make the public aware of that."

Robert Murphy PhD, shows how nonsensical insider-trading laws are:

> To drive home just how arbitrary and non-criminal "insider trading" really is, consider this scenario: Suppose someone had been planning on buying shares of Acme, but just before doing so, he caught wind of a bad earnings report. In light of the new information (which was not yet public), the person refrained from his intended purchase. Should this person be prosecuted for insider non-trading?

Insider trading is morally right and economically sound. Yet government prosecutors uses these arbitrary laws to punish their enemies, boost their political careers, while throttling the basic rights of freedom of speech, rights to privacy and property.

Should We Really Be Encouraging the Master's Degree for All?

by Richard Vedder

There has been mounting evidence that the financial payoff from the traditional bachelor's degree is declining, particularly for men. For example, the Census Bureau data suggest that from 2005 to 2016, the average earnings differential for male workers holding bachelor's degrees compared with those holding high school diplomas fell from $39,440 to $37,653 (in 2016 dollars)—at a time when college costs were rising.

Other evidence from the New York Federal Reserve Bank confirms that a large portion of college graduates are underemployed, working jobs traditionally held by high school graduates.

There are two interpretations of this data, one by the general American public and the second from the "College for All" crowd, the cheerleaders for higher education who believe the nation benefits from more students earning more degrees.

Time to Upgrade the New Standard

Turning to the first interpretation, in light of rising costs and at best stagnant benefits, more Americans are simply not going to universities. The National Student Clearinghouse reports enrollments are down for the sixth consecutive year, which is unprecedented in modern American history. Even during the Great Depression, enrollments grew.

The College for All interpretation is that the diminishing payoff to the bachelor's degree means students need to get more degrees, specifically master's degrees. Historically, a bachelor's degree was a powerful and reliable signaling device, telling employers that the college-educated individual was almost certainly smarter, more knowledgeable, disciplined, ambitious, and harder-working than the average American. College graduates were special people — the best and the brightest, deserving a nice wage premium in labor markets.

But now that one-third of adult Americans have bachelor's degrees, some college graduates have pretty ordinary levels of intelligence and the other positive attributes that employers like. The fact that American college students on average spend less than 30 hours weekly on academics for perhaps 30 weeks annually reinforces this point. Therefore, to get a positive "sheepskin effect" from a diploma, one now has to go for the new standard, a master's degree. If trends continue, by 2025 we will be offering master's degrees in janitorial science

Yet there are two pieces of evidence showing that even obtaining a master's is not a surefire path to economic success; indeed it may be an increasingly risky one.

Not All Master's Degrees Are Created Equal

First, I examined the earnings differential between workers with master's and with bachelor's degrees over the 25 years of 1991 to 2016, using Census Bureau data. In the first part of that period, say 1991 to 2005, the master's payoff grew substantially, but since then, that is decidedly not the case for men.

Looking at the average earnings differential in inflation-adjusted terms, the average master's degree advantage for working men declined over 28 percent from $20,768 in 2005 to $14,877 in 2016.

Then there is a new American Enterprise Institute study by Mark Schneider and Jorge Klor de Alva, "The Master's as the New Bachelor's Degree." The payoff from a master's degree varies vastly by field of study. Census Bureau data for 2009 shows that for social science majors, the master's degree earnings advantage was less than $100 monthly, but it was more than $3,000 monthly in business administration.

The authors gathered unique data from Colorado, Texas, and Florida. It turns out that earnings for those receiving master's degrees are extremely low in some situations — less than those with bachelor's degrees typically make. Philosophy master's graduates in Colorado had annual median earnings under $30,000, while "area studies" master's graduates in Texas typically earned a relatively paltry $36,000 annually. Yet petroleum engineers with master's degrees in Colorado had typical earnings of $176,500 annually, six times the earnings of philosophy graduates.

This study shows the dangers of looking at broad aggregate statistics. The field of study is as important in determining earnings as the level of degree earned, and labor market location importantly matters as well. Additionally, there are important gender differences. While on average, the payoff to earning a master's declined for men after 2005, it rose significantly for women.

Although the AEI and Census data don't show it, I suspect the payoff from a degree also varies dramatically by institution. The U.S. Department of Education, when it is not harassing colleges by mandating Star Chamber procedures for student judiciary proceedings, occasionally publishes some interesting statistics. Looking at undergraduates, for example, I learned that the average student at M.I.T. makes $94,200 after graduating, 2.3 times the average $41,000 earnings at Salem State, located only 18 miles away.

As Bryan Caplan points out in his new book, The Case Against Education, most of the earnings differential associated with college does not reflect stuff colleges teach their students, but rather the already-existing advantages that college graduates possess (more intelligence, greater discipline, more ambition, more prior learning, etc.). The Sheepskin Effect is real. We expend enormous resources in producing pieces of paper (diplomas) conveying labor market information. The move toward getting a master's degree — more diplomas — aggravates an already hugely inefficient system.

Are There Better Ways to Provide Evidence of Potential Competency?

Suppose every person seeking highly-skilled employment in America took a standardized National College Equivalency Examination (NCEE) that was 3.5 hours long, testing critical reasoning and writing skills (perhaps the existing CLA+ exam), general knowledge that all college graduates should know (via a 75 multiple choice question test), and maybe 25 questions in the student's area of major interest.

My guess is that the correlation of scores on that test with either college reputation or the actual post-graduate earnings of those tested would be quite high. With some exceptions, the best jobs would go to the kids with the highest scores. So why even require degrees? Why mess with college accreditation — look at the scores on the NCEE for each college's graduates. Why isn't the business community devising such a test?

No doubt there are other approaches to stop the gamesmanship leading students to obtain master's degrees that often do relatively little to truly improve employment skills or much else, such as making students more virtuous.

As America increasingly engages in massive federal budget deficits, incurs ever larger obligations associated with a costly welfare state serving an aging population, and faces increasingly expensive international challenges from terrorists and emerging nations like China, can we afford to continue to certify predicted employment competence the same way some Europeans did in the late Middle Ages?

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To Change the World, Change Yourself

by Tony Fahkry

"Everyone thinks of changing the world, but no one thinks of changing himself." — Leo Tolstoy

It was the American author and speaker John C. Maxwell who wrote: "Most people want to change the world to improve their lives, but the world they need to change first is the one inside themselves."

Everyone has an opinion on what is wrong with the world, yet few will do the work to improve their own lives. It is easy to draw attention to what is wrong in the world because on one level it is frustrating to observe these conditions and stand back while they take place.

I often remind myself and others, the world has existed for 4.54 billion years and is much older and wiser than us. We have existed for a minor part in that timeline and conditions weren't always ideal. In fact, history shows conditions were less than idyllic. So, a Utopian paradise needn't exist for us to be happy. We can still thrive despite the unrest in the world because outside conditions aren't as bad as you think they are.

If you want to change reality, start with yourself first and attend to your own personal development. In doing so, problems give way to solutions and no longer affect you.

Author Larry Weidel writes in *Serial Winner: 5 Actions to Create Your Cycle of Success:* "If we all live the richest life possible, it's personally fulfilling, but it also changes the world."

Raise Your Level Of Consciousness

"I alone cannot change the world, but I can cast a stone across the waters to create many ripples." — Mother Teresa

Most people are frustrated or angry with circumstances beyond their control. They believe that, if they can control these situations, they will be happy. Sometimes it is not possible since there are too many things to control. It requires redesigning your life to suit you or playing God, neither of which is possible.

It is simpler to attend to your own personal development. So when you feel frustrated, angry, or any other disempowering state, become curious and work on that part of you that is at war with reality.

It is futile trying to change conditions out there because life is constantly changing. It is like trying to keep plates spinning on a stick while more plates are added. You cannot keep up, and they will eventually come crashing down.

It makes sense to work on yourself so that outside conditions no longer affect you as they once did. This is the key to enlightenment: raising your level of consciousness so you transcend problems with a higher awareness. Albert Einstein recognized this principle when he said, "We can't solve problems by using the same kind of thinking we used when we created them."

Consider the following example, highlighting why you must attend to your own personal growth if you want to change the world. Imagine 100 people who constantly complain about the state of the world. One day they collectively decide they've had enough and undertake personal development to change their lives. Within months, they have stopped whining and are now open to embracing life instead of being mired in their problems. They act from a place of love, peace, and joy.

You've heard it said, you are the sum of the five people you most associate with. Therefore, if 100 people can influence five others, we have 500 people who are now more self-aware than before. If that cycle continues, a tipping point will occur so that anger and fear no longer prevail.

Now, I am not naïve and know this Utopian reality will not miraculously emerge overnight, if at all, within the coming decade. Yet, undertaking personal development will not only help you but influence those around you.

I have seen evidence of this with my family and friends and those I've coached. You change the world not by pointing out what is wrong with it, but by *upgrading your model of reality* to coincide with what you wish to see in the world.

It's an inside-out job.

"You don't have to change the world. You just have to change what you pay attention to in the world. And that, it turns out, is hugely powerful," affirms Vishen Lakhiani in The Code of the Extraordinary Mind: 10 Unconventional Laws to Redefine Your Life and Succeed On Your Own Terms.

Upgrade Your Model Of Reality

"You are here in order to enable the world to live more amply, with greater vision, with a finer spirit of hope and achievement. You are here to enrich the world." — Woodrow Wilson

It was the late Dr. Wayne Dyer, a well-known self-help author who said: "If you change the way you look at things, the things you look at change." He knew change must first take place from within and has a ripple effect on the lives of others. If that change is powerful enough, it will gather momentum to affect the whole of humanity.

I admit it is difficult to focus on what is right in the world when we are governed by our internal state, which gets the better of us. The media adds to the negativity by reporting bad news to promote fear, and it becomes challenging to break the spell.

I often succumb to these disempowering states at times, so it is remiss of me to offer the advice and claim not to feel this way. Yet, through my own personal development, I've come to appreciate that these are fleeting states, and I don't remain stuck in this condition for long. Awareness has taught me that what I focus on builds momentum and becomes integrated into my reality.

So the advice is clear and simple: be aware of when you are pointing the finger outside of yourself. Go within and attend to that part of you that is inclined to judge outside circumstances as bad.

Heal yourself first by integrating your shadow self and be mindful of your thoughts leading you down a path of negativity. If you do this often, you will break the cycle of incessant thinking that dictates there is something wrong with the world. It is worth the effort to your personal growth.

Eventually, problems that once consumed you will no longer affect you because you have upgraded your model of reality to coincide with a new awareness.

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Liberty vs. the Constitution: The Early Struggle

by Albert Jay Nock

[Excerpted from chapter 5 of Albert Jay Nock's *Jefferson*]

The Constitution looked fairly good on paper, but it was not a popular document; people were suspicious of it, and suspicious of the enabling legislation that was being erected upon it. There was some ground for this. The Constitution had been laid down under unacceptable auspices; its history had been that of a *coup d'état*.

It had been drafted, in the first place, by men representing special economic interests. Four-fifths of them were public creditors, one-third were land speculators, and one-fifth represented interests in shipping, manufacturing, and merchandising. Most of them were lawyers. Not one of them represented the interest of production — *Vilescit origine tali*.

In the second place, the old Articles of Confederation, to which the states had subscribed in good faith as a working agreement, made all due provision for their own amendment; and now these men had ignored these provisions, simply putting the Articles of Confederation in the wastebasket and bringing forth an entirely new document of their own devising.

Again, when the Constitution was promulgated, similar economic interests in the several states had laid hold of it and pushed it through to ratification in the state conventions as a minority measure, often — indeed, in the majority of cases — by methods that had obvious intent to defeat the popular will. Moreover, and most disturbing fact of all, the administration of government under the Constitution remained wholly in the hands of the men who had devised the document, or who had been leaders in the movement for ratification in the several states. The new president, Washington, had presided over the Constitutional Convention. All the members of the Supreme Court, the judges of the federal district courts, and the members of the cabinet were men who had been to the fore either in the Philadelphia Convention or in the state ratifying conventions. Eight signers of the Constitution were in the Senate, and as many more in the House. It began now to be manifest, as Madison said later, who was to govern the country; that is to say, in behalf of what economic interests the development of American constitutional government was to be directed.

Mr. Jefferson was slow to apprehend all this. He had hitherto regarded the Constitution as a purely political document, and having that view, he had spoken both for it and against it. He had criticized it severely because it contained no Bill of Rights and did not provide against indefinite tenure of office. With these omissions rectified by amendment, however, he seemed disposed to be satisfied with it. Its economic character and implications apparently escaped him, and now that for the first time he began, very slowly and imperfectly, to get a sense of it as an economic document of the first order, he began also to perceive that the distinction between Federalist and anti-Federalist, which he had disparaged in his letter to [Francis] Hopkinson, was likely to mean something after all.

He set out on March 1, 1790, for New York, the temporary capital, where he found himself a cat in a strange garret. Washington and his entourage greeted him cordially, and the "circle of principal citizens" welcomed him as a distinguished and agreeable man. He had grown handsomer as he approached middle age, and his elaborate French wardrobe set him off well. His charm of manner was a reminiscence of Fauquier; he was invariably affable, courteous, and interesting.

The people of New York could have quite taken him to their hearts if they had not felt, as everyone felt in his presence, that he was always graciously but firmly holding them off. Yet if they had any suspicions of his political sentiments and tendencies, they put them in abeyance; his attitude towards the French Revolution had shown that he was amenable to reason. As soon, no doubt, as this well-to-do, well-mannered, highly cultivated, and able man of the world saw which way the current of new national ideas was setting, he would easily fall in with it.

At any rate, everything should be made easy for him. "The courtesies of dinner parties given me, as a stranger newly arrived among them, placed me at once in their familiar society."[1] But every hour thus spent increased his bewilderment. Everyone talked politics, and everyone assiduously talked up a strong government for the United States, with all its costly trappings and trimmings of pomp and ceremony.This was a great letdown from France, which he had just left

> in the first year of her revolution, in the fervor of natural rights, and zeal for reformation. My conscientious devotion to these rights could not be heightened, but it had been aroused and excited by daily exercise.[2]

No one in New York was even thinking of natural rights, let alone speaking of them. The "principal citizens" held the French Revolution in devout horror. "I can not describe the wonder and mortification with which the table conversations filled me." Where indeed was the old high spirit, the old motives, the old familiar discourse about natural rights, independence, self-government? Where was the idealism that these had stimulated — or the pretence of idealism that these had evoked?

One heard nothing here but the need for a strong government, able to resist the depredations which the democratic spirit was likely to make upon "the men of property," and quick to correct its excesses. Many even spoke in a hankering fashion about monarchy. All this, manifestly, was nothing to be met with the popgun of Constitutional amendments providing for a Bill of Rights and rotation in office; manifestly, the influential citizenry of New York would but lift their eyebrows at a fine theoretical conception of the United States as a nation abroad and a confederacy at home.

Mr. Jefferson's ideas were outmoded; nothing was of less consequence to the people about him; he might have thought himself back in Paris in the days of Calonne, at a soirée of the Farmers-General. Other ideas were to the front; and when Washington's cabinet came together, Mr. Jefferson confronted the [3] coryphaeus of those ideas in the person of a very young and diminutive man with a big nose, a giddy, boyish, and aggressive manner, whom Washington had appointed secretary of the treasury.

Alexander Hamilton came to the colonies at the age of sixteen, from his home in the West Indies, dissatisfied with the prospect of spending his days in "the groveling condition of a clerk or the like … and would willingly risk my life, though not my character, to exalt my station. … I mean to prepare the way for futurity."

This was in 1772. He found the country ripe for him. There was something stirring all the time, something that an enterprising young man might get into with every chance to make himself felt. At 18 he came forward in a public meeting with a harangue on the Boston Port Bill,[4] and he presently wrote a couple of anonymous pamphlets on public questions, one of which was attributed by an undiscriminating public to John Jay, who, as Mr. Jefferson said, wielded "the finest pen in America," and therefore resented the imputation of authorship with a lively chagrin. He showed his bravery conspicuously on two occasions in resisting the action of mobs: once to rescue the Tory president of King's College, now Columbia; and once to rescue another Tory named Thurman.[5]

He saw that war was almost certainly coming on, bearing a great chance of preferment to the few in the colonies who had learned the trade of arms; so he studied the science of war, and the outbreak of hostilities found him established as an artillery officer. He had an unerring instinct for hitching his fortunes to the right cart-tail. Perceiving that Washington would be the man of the moment, he moved upon him straightway, gained his confidence, and remained by him, becoming his military secretary and aid-de-camp.

But the war would not last forever, and Hamilton had no notion of leading the life of a soldier in time of peace. Arms were a springboard for him, not a profession. He served until the end of the campaign of 1781, when he retired with some of the attributes of a national figure and with the same persistent instinct for alliance with power. He always gave a good and honorable *quid pro quo* for his demands; he had great ability and untiring energy, and he threw both most prodigally into whatever cause he took up.

Money never interested him. Although he inaugurated the financial system which enriched so many, he remained all his life quite poor, and was often a good deal straitened. Even in his career as a practicing lawyer, conducting important cases for wealthy clients, he charged absurdly small fees.

His marriage in 1780 with one of the vivacious Schuyler girls of Albany, made him a fixture in "the circle of principal citizens" of New York; it was a ceremony of valid adoption.[6] He was elected to Congress in 1782, he served as a delegate to the Constitutional Convention in 1787, and now he was in the cabinet as the recognized head of the centralizing movement.

The four great general powers conferred by the Constitution upon the federal government were the power of taxation, the power to levy war, the power to control commerce, and the power to exploit the vast expanse of land in the West. The task now before Congress was to pass legislation appropriate to putting these powers into exercise. There was no time to be lost about this. Time had been the great ally of the *coup d'état*.

The financial, speculative, and mercantile interests of the country were at one another's elbow in the large towns, mostly on the seaboard; they could communicate quickly, mobilize quickly, and apply pressure promptly at any point of advantage. The producing interests, which were mostly agrarian, were, on the other hand, scattered; communication among them was slow and organization difficult. It was owing to this advantage that in five out of the thirteen states, ratification of the Constitution had been carried through before any effective opposition could develop. Now, in this next task, which was, in Madison's phrase, to administration the government into such modes as would ensure economic supremacy to the non-producing interests, there was urgent need of the same powerful ally, and here was the opportunity for the great and peculiar talents that Alexander Hamilton possessed.

Perhaps throughout, and certainly during the greater part of his life, Hamilton's sense of public duty was as keen as his personal ambition. He had the educated conscience of the *arriviste* with reference to the social order from which he himself had sprung. A foreigner, unprivileged, of obscure origin and illegitimate birth, "the bastard brat of a Scots pedlar," as John Adams testily called him, he had climbed to the top by sheer force of ability and will.

In his rise he had taken on the self-made man's disregard of the highly favorable circumstances in which his ability and will had been exercised; and thus he came into the self-made man's contemptuous distrust of the ruck of humanity that he had left behind him. The people were "a great beast," irrational, passionate, violent, and dangerous, needing a strong hand to keep them in order. Pleading for a permanent president and Senate, corresponding as closely as might be to the British model of a king and a House of Lords, he had said in the Constitutional Convention that all communities divide themselves into the few and the many, the first being

> the rich and well born, the other the mass of the people. … The people are turbulent and changing; they seldom judge or determine right. Give therefore to the first class a distinct permanent share of government. … Nothing but a permanent body can check the imprudence of democracy. Their turbulent and uncontrollable disposition requires checks.[7]

He had no faith in republican government, because, as Gouverneur Morris acutely said, "he confounded it with democratical government; and he detested the latter, because he believed it must end in despotism, and be in the meantime, destructive to public morality."[8]

But republican government was here, and he could not change it. Of all among "the rich and well-born" who talked more or less seriously of setting up a monarchy, there was none doubtless unaware that the republican system could hardly be displaced, unless by another coup d'état made possible by some profound disturbance, like a war. Hamilton, at any rate, was well aware of it.

The thing, then, was to secure the substance of absolutism under republican forms; to *administration* republican government into such absolutist modes as the most favorable interpretation of the Constitution would permit. Here was the line of coincidence of Hamilton's aims with the aims of those who had devised and promulgated the Constitution as an economic document. These aims were not identical, but coincident.

Hamilton was an excellent financier, but nothing of an economist. Insofar as he had any view of the economics of government, he simply took for granted that they would, as a matter of course and more or less automatically, arrange themselves to favor "the rich and well-born," since these were naturally the political patrons and protectors of those who did the world's work. In a properly constituted government, such consideration as should be bestowed upon the producer would be mostly by way of *noblesse oblige*.

The extent of his indifference to the means of securing political and economic supremacy to "the rich and well-born" cannot be determined, yet he always frankly showed that he regarded over-scrupulousness as impractical and dangerous. Strong in his belief that men could be moved only by force or interest, he fearlessly accepted the corollary that corruption is an indispensable instrument of government, and that therefore the public and private behavior of a statesman may not always be answerable to the same code.

Hamilton's general plan for safeguarding the republic from "the imprudence of democracy" was at bottom extremely simple. Its root idea was that of consolidating the interests of certain broad classes of "the rich and well-born" with the interests of the government. He began with the government's creditors. Many of these, probably a majority, were speculators who had bought the government's war bonds at a low price from original investors who were too poor to keep their holdings.

Hamilton's first move was for funding all the obligations of the government at face value, thereby putting the interests of the speculator on a par with those of the original holder, and fusing both classes into a solid bulwark of support for the government. This was inflation on a large scale, for the values represented by the government's securities were in great part — probably 60 percent — notoriously fictitious, and were so regarded even by their holders. A feeble minority in Congress, led by Madison, tried to amend Hamilton's measure in a small way, by proposing a fair discrimination against the speculator, but without success.

Before any effective popular opposition could be organized, Hamilton's bill was driven through a Congress which reckoned nearly half its membership among the security-holders. Its spokesmen in the House, according to [Sen. William] Maclay, who listened to the debate, offered little argument, and contented themselves with a statesmanlike recourse to specious moralities.

> Ames delivered a long string of studied sentences … He had "public faith," "public credit," "honour, and above all justice," as often over as an Indian would the "Great Spirit," and if possible, with less meaning and to as little purpose. Hamilton, at the head of the speculators, with all the courtiers, are on one side. These I call the party who are actuated by interest.[9]

Hamilton's own defense of indiscriminate funding was characteristic; he declared that the impoverished original holders should have had more confidence in their government than to sell out their holdings, and that the subsidizing of speculators would broadcast this salutary lesson.

Hamilton's bill contained a supplementary measure which reached out after the state creditors, united them with the mass of federal creditors, and applied a second fusing heat. The several states which had at their own expense supplied troops for the

Revolutionary army, had borrowed money from their citizens for that purpose; and now Hamilton proposed that the federal government should assume these debts, again at face value — another huge inflation, resulting in "twenty millions of stock divided among favored States, and thrown in as pabulum to the stock-jobbing herd," as Mr. Jefferson put it.[10]

Two groups of capitalist interest remained, awaiting Hamilton's attentions: one of them actual, and the other inchoate. These were the interest of trade and commerce, and the interest of unattached capital looking for safe investment. There was no such breathless hurry about these, however, as there had been about digging into the impregnable intrenchments of funding and assumption.

The first group had already received a small *douceur* in the shape of a moderate tariff, mostly for revenue, though it explicitly recognized the principle of protection; it was enough to keep them cheerful until more could be done for them. Considering the second group, Hamilton devised a plan for a federal bank with a capital of $10,000,000, one-fifth of which should be subscribed by the government, and the remainder distributed to the investing public in shares of $400 each. This tied up the fortunes of individual investors with the fortunes of the government, and gave them a proprietary interest in maintaining the government's stability; also, and much more important, it tended powerfully to indoctrinate the public with the idea that the close association of banking and government is a natural one.

There was one great speculative interest remaining, the greatest of all, for which Hamilton saw no need of taking special thought. The position of the natural-resource monopolist was as impregnable under the Constitution as his opportunities were limitless in the natural endowment of the country. Hence the association of capital and monopoly would come about automatically. Nothing could prevent it or dissolve it, and a fixed interest in the land of a country is a fixed interest in the stability of that country's government — so in respect of these two prime desiderata, Hamilton could rest on his oars.

In sum, then, the primary development of republicanism in America, for the most part under direction of Alexander Hamilton, effectively safeguarded the monopolist, the capitalist, and the speculator. Its institutions embraced the interests of these three groups and opened the way for their harmonious progress in association. The only interest which it left open to free exploitation was that of the producer. Except insofar as the producer might incidentally and partially bear the character of monopolist, capitalist, and speculator, his interest was unconsidered.

This article is excerpted from chapter 5 of Albert Jay Nock's *Jefferson*.

1. Thomas Jefferson, T*he Anas / From the Writings of Thomas Jefferson: Volume 1*, ed. Albert Ellery Bergh (Washington, DC: Thomas Jefferson Memorial Association, 1903): p. 270.

2. Ibid.

3. Greek word literally meaning "leader of the chorus."

4. 14 Geo. 3 c.19. One of the so-called Intolerable Acts passed by the British Parliament in response to the Boston Tea Party; this bill closed the Port of Boston until restitution was made to the King's treasury and the East India Company.

5. An apparent reference to Ralph Thurman, a New York merchant who ignored a colonist boycott of English goods. The Sons of Liberty "attempted to tar and feather him, but he fled." See Willard Sterne Randall, *Alexander Hamilton: A Life* (New York: Harper Collins, 2003): p. 86.

6. Hamilton married Elizabeth Schuyler (1757-1854), the second daughter of Philip Schuyler, a former major general in the Continental Army and later a US senator.

7. This relies on an account of Hamilton's June 18, 1787, speech to the convention by Robert Yates, a fellow delegate representing New York. Yates's original notes read as follows: "All communities divide themselves into the few and the many. The first are the rich and well born, the other the mass of the people. The voice of the people has been said to be the voice of God; and however generally this maxim has been quoted and believed, it is not true in fact. The people are turbulent and changing; they seldom judge or determine right. Give therefore to the first class a distinct, permanent share in the government. They will check the unsteadiness of the second, and as they cannot receive any advantage by a change, they therefore will ever maintain good government. Can a democratic assembly, who annually revolve in the mass of the people, be supposed steadily to pursue the public good? Nothing but a permanent

body can check the imprudence of democracy. Their turbulent and uncontroling disposition requires checks." See "Notes of the Secret Debates of the Federal Convention of 1787, Taken by the Late Hon Robert Yates, Chief Justice of the State of New York, and One of the Delegates from That State to the Said Convention."

8. Anne Cary Morris, ed., *The Diary and Letters of Gouvernur Morris, vol. 2* (New York: Charles Scribner's Sons, 1888): p. 523.

9. Edgar S. Maclay, ed., *Journal of William Maclay, United States Senator from Pennsylvania 1789–1791* (New York: D. Appleton & Co., 1890): p. 197. (The original punctuation, which Nock had altered, has been restored.)

10. Jefferson, *The Anas*, p. 276.

Nelson's Book Recommendations
https://infinitebanking.org/books/

The Soul of Money: Transforming Your Relationship with Money and Life by Lynne Twist

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- Charlie Nowlin - Birmingham, Alabama
- Stephen Devlin - Vancouver, British Columbia
- Barry Page - Ocean Springs, Mississippi
- John Blalock - Birmingham, Alabama
- Micharl Sparks - Clarksville, Tennessee
- Gary Sund - Saugus, Massachusetts
- Marc Solomon - Denver, Colorado
- Debra Lanford - Greer, South Carolina
- Arkady Milgram - Thousand Oaks, California
- Kurt Berry - Rockford, Illinois
- Michele Boyer - Parker, Colorado
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