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BUILDING THE 10%

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ABOUT LARA & MURPHY

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"Whether the [man who creates a good] will it or not, not an atom of matter can, for a single moment or by a hair's breadth, work otherwise than the unchangeable laws of nature demand."

—Eugen von Böhm-Bawerk (1851-1914)

When Böhm-Bawerk died in 1914 Mises was thirty-three years old and well versed in his predecessor's work. Böhm-Bawerk's foundational work on *Capital and Interest* would continue to flourish in Mises' masterful treatise *Human Action,* and in the writings of future Austrian thinkers. What is interesting to notice is that most Austrian theorists begin their in-depth expositions with *man* and *nature* as their starting point.

Böhm-Bawerk would say that it is important to begin with known facts from sister disciplines (such as physics and psychology) because they keep scientific inquirers such as himself "from lightly building our whole system, or parts of it, on air, and unintentionally maintaining in the name of Political Economy something which, in its assumptions or conclusions, is, physically or psychologically speaking, nonsense."

He would say that to prevent contradicting the fundamentals of human nature, these truths had to be repeated and reinforced continually for purposes of explaining any type of theory even though these laws are known by everyone. For example, it is well understood that *"men strive for happiness,"* or better yet, that they strive for *"the satisfaction of want."* This seems like negligible propositions because no one disputes them, but Böhm-Bawerk would remind us that there are theories that have been put into circulation that actually contradict them.

Intellectual responsibility such as this gives us a great sense of appreciation for the soundness of Austrian thinking. Böhm-Bawerk wrote in his *Positive Theory of Capital* that man's role in the production of material goods consists chiefly in the fact that he himself is a part of the natural world. Man's "sole but ample contribution consists mainly in the moving of things," he would say. All of man's dominion over nature and its powers amounts to "putting objects in motion."

Statements such as these present themselves as profound and uplifting thoughts. When we say *"IBC is Austrian economics in action"* we mean what Böhm-Bawerk implies. In reflecting on our *building the 10%* his words are encouraging especially when he says that "at the proper moment the movement hitherto held in leash is suddenly set free, and the desired effect is obtained at the opportune time."

With each IBC conversion we get closer to our goal. Each individual, each household, and each business that practices *IBC* keeps the wheels in motion. Our individual efforts count.

Thank you for your support and all that you do.

Yours truly,
Carlos and Bob

Drill Baby Drill

TRUMP EXECUTIVE ORDER OPENS UP OFFSHORE OIL DEVELOPMENT

In late April, President Trump signed an Executive Order that signaled (another) stark contrast with the Obama Administration's attitude toward fossil fuels. The latest EO focuses in particular on expediting the ability of private companies to obtain leases for oil and natural gas development in Arctic waters.

Tom Pyle, the president of the free-market think tank Institute for Energy Research [disclosure: Murphy is Senior Economist at IER], said in a statement about the new Executive Order: *"America's offshore oil and gas resources have been held under lock and key for too long. In fact, the Interior Department only leases one percent of offshore areas—leaving vast amounts of our energy resources off the table. The U.S. Arctic alone holds an estimated 27 billion barrels of oil and 132 trillion cubic feet of natural gas."*

Donald Trump the president has disappointed many of the fans of Donald Trump the candidate, particularly those who thought he would stay out of the Syrian civil war. However, when it comes to domestic energy development, Trump has been refreshingly radical and is a night-and-day difference from what Hillary Clinton would have been.

Trump Hearts Yellen?!

TRUMP FLIP FLOPS ON YELLEN REAPPOINTMENT (MAYBE)

At this point, there's not too much you can be sure of when it comes to the future policies of the Trump Administration. Based on his campaign rhetoric, Donald Trump was presumably going to replace Janet Yellen as Fed chair when her term expires in February 2018. Yet in a mid-April interview with the Wall Street Journal, Trump was asked if Yellen would be "toast" (i.e. replaced) and he responded: *"No, not toast…You know, I like her, I respect her. She's been here [in the Oval Office.] She's been in that seat. I do like the low interest rate policy."*

Now in fairness, this actually doesn't give us too much new information about the future of U.S. monetary policy. Even though Trump associated Janet Yellen with a loose monetary policy (allegedly implemented to help Obama/Hillary Clinton), as we've explained often on these pages, Yellen is actually overseeing a gradual *tightening*. In particular, the so-called taper was started at the very end

of Bernanke's term, so that Yellen oversaw its full completion.

Since late 2014, the Fed has been treading water on its total asset holdings (keeping them around $4.5 trillion); it simply rolls over bonds as they mature. The Fed has raised its target federal funds rate three times since Yellen became chair, and the Fed is predicting two additional hikes this year, and another three in 2018. Finally, note that since Yellen became Fed chair in February 2014, the USD has strengthened about 27 percent against the euro, while the USD has strengthened about 13 percent against the Chinese yuan.

All in all, we might fairly describe U.S. monetary policy under Yellen as "loose," but it's definitely become *tighter* over time. Therefore, to learn that Trump might keep Yellen in her post doesn't really signal "easy money." We still maintain our warnings about how the economy will react to rising interest rates.

Brexit: Commerce vs. Politics

DON'T CONFLATE FREE TRADE WITH ENTANGLING POLITICAL ALLIANCES

One of us (Murphy) just got back from a week-long tour of eastern Europe, as part of the "Free Market Road Show." One of the themes for this year's tour was the impact of Brexit.

The simple but important point here is not to confuse the various motives for the British voters who wished to withdraw from the European Union. Although critics often label the attitude as "isolationism" and diagnose it as a backlash against "globalization" and "free trade," in reality these are all different phenomena. The average voter might be confused him or herself, but serious analysts should keep these concepts distinct.

In particular, it is entirely coherent for someone to say, "I want my government to maintain its national sovereignty and not cede authority to supernational organizations where our people have no control at all. Yet I also believe in a free trade and don't want my government levying arbitrary tariffs against foreign goods."

Not only is such a view coherent, it's arguably the traditionally American one. In his farewell address, George Washington famously advised Americans to engage in commerce with all nations, but to enter into permanent political/military alliances with none.

International Trade and Tax Reform

PART 2

By Robert P. Murphy

In the February 2017 issue of the ***LMR,*** I wrote Part 1 of this two-part series. In that essay, I explained the proposed the GOP's Border Adjustment Tax (BAT) and the alleged unfair tax treatment of U.S. companies (which face a high corporate income tax) versus foreign competitors (most of which are taxed by a Value Added Tax, or VAT). I also explained why Martin Feldstein and some other prominent economists argued that the dollar would simply strengthen and offset the impact of the BAT on international trade flows. (Note that I have since pinpointed what I think is a serious problem with Feldstein's argument; see my March 18, 2017 blog post at Lara-Murphy.com for the details.[1])

When economists talk about the problems of a poorly designed tax code, what they usually mean is that it raises revenues inefficiently.

In this article, I explain some of the general principles of "tax reform," as economists typically treat the topic. I will also provide some discussion of the famous Laffer Curve, because that is now a hot topic again in light of the very recent announcement of Trump's tax reform plan. However, I will postpone discussion of the specifics of the Trump tax plan because (a) the plan was just announced after I had already laid out the present column and (b) it is thus far a very superficial announcement and the details are likely to evolve over time. As the specifics of a tax reform plan take shape, we will return to the topic in future *LMR* issue(s).

General Principles of Tax Reform

In episode 36 of the Lara-Murphy Show,[2] I walked through some of the major principles of a generic "tax reform," at least as most economists treat the matter. I will give a similar, written discussion here.

Market prices help coordinate the actions of producers and consumers so that resources flow to their most important uses.

Before diving in, let me offer a caveat: In this article, I am not wearing my Austrian hat. Instead, I am summarizing the way mainstream economists (who are sympathetic to the market economy) think about tax reform. My goal is to educate you the reader so that you understand the big picture, but also so that you can make sense of the analysis that is sure to come, now that the Republicans are pursuing tax reform.

Taxes Distort Behavior and Are Thus "Inefficient"

The first general point is that when economists talk about the problems of a poorly designed tax code, what they usually mean is that it raises revenues inefficiently. In other words, it's not that economists *as practitioners in a scientific discipline* are smuggling in value judgments about whether it's moral or not for politicians to take a cut of your paycheck. This might be a perfectly fine point to make, but it's not something flowing from economic science per se.

Instead, economists critique taxes from the perspective of efficiency. In general, market prices help coordinate the actions of producers and consumers so that resources flow to their most important uses. There is an important sense in which the market outcome is "efficient," *given* the existing state of technology, the supplies of various resources (including human labor of different skill types), and the subjective preferences of consumers.

Taxes interfere with this efficient market outcome. Taxes place a "wedge" in between the tradeoffs that actually exist because of fundamental realities. For example, a tax on income makes workers think that their labor is not as productive as it really is, and so workers choose to enjoy more leisure and sell fewer labor-hours. This is an inefficient outcome *not* because we are arbitrarily saying "more work is better," but because we know that a tax on income makes workers

choose less work (and more leisure)[3] than they would in a setting where they faced the actual market prices.

One take-away from this insight is that the harm of a tax is *not* necessarily measured by how many dollars it collects in revenue. For an extreme case, suppose a city government levied a $10 per box tax on Cheerios. This would not raise much revenue at all, because just about nobody in the city would actually pay the tax. (Instead, they would buy Cheerios off the black market, or they would drive to a nearby city and load up on Cheerios.) Yet in this scenario, the hypothetical tax would hardly be innocuous: people would still be greatly inconvenienced by having to jump through hoops in order to get their Cheerios. So even though this tax would raise $0 in revenue for the city government, it would be onerous indeed to the residents.

A "Flat" Tax on as Wide a Base as Possible

If the problem with taxes is that they distort behavior, then the way to minimize the damage is to levy the smallest *rate* of tax as possible, that still raises the desired amount of revenue. This means applying the tax to as wide a *base* as possible.

For example, suppose the city government wants to raise $1 million by taxing cereal. Further suppose that there are two ways of doing this: Plan (A) levies a 10-cent tax on *all* cereal boxes sold in grocery stores. This reduces the amount of cereal sold somewhat, and at the lower level of sales there are exactly 10 million boxes sold, so that the 10-cent-per-box tax raises the desired $1 million.

Plan (B) on the other hand levies a $2 tax *just* on boxes of Raisin Bran. At that high price, a lot of people switch out of Raisin Bran into other brands, but there are still 500,000 boxes of Raisin Bran sold. Thus the tax raises the desired $1 million as well.

If the problem with taxes is that they distort behavior, then the way to minimize the damage is to levy the smallest rate of tax as possible, that still raises the desired amount of revenue.

However, Plans (A) and (B) are *not* equivalent in terms of economic efficiency. The light tax doesn't distort behavior very much, whereas the heavy tax on Raisin Bran causes a large shift in consumer behavior. Generally speaking, there is a sense in which the people of the city would prefer to live under Plan (A) rather than Plan (B). (Specifically, the people who prefer Plan (A) to Plan (B) would be willing to pay more than enough to those who preferred the vice versa outcome.)

This perspective holds more broadly than in our hypothetical cereal tax story. Rather than the government levying taxes on specific goods or activities, if the point is simply to raise revenue (rather than discouraging "socially undesirable" activities like smoking), then we don't want the government picking winners and losers. Don't have different tax rates for different sectors of the economy, and don't have special exemptions or deductions. By applying the tax to as wide a base as possible, the *percentage rate* of the tax can be held down as low as possible for the given dollar amount of desired revenue.

If the point is simply to raise revenue (rather than discouraging "socially undesirable" activities like smoking), then we don't want the government picking winners and losers.

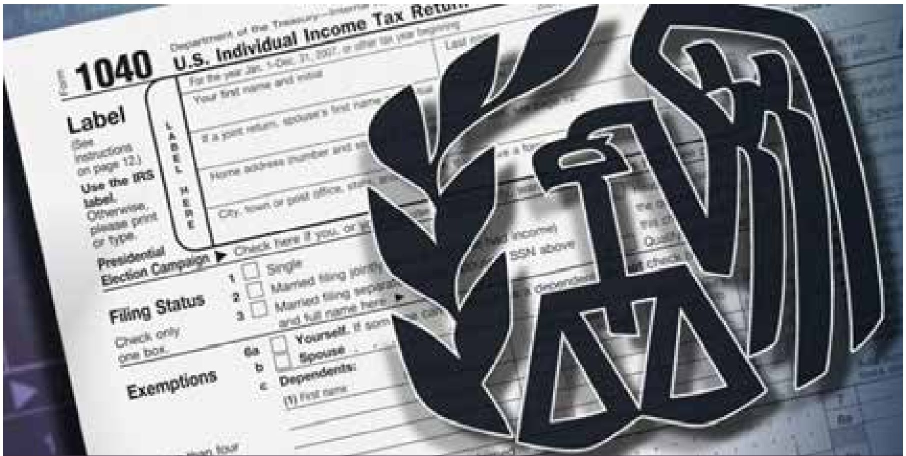
An Income Tax Is More Distortionary Than a Consumption Tax

To repeat, in this article I am talking about the mainstream economics approach to tax reform. Austrian libertarians such as Murray Rothbard were often critical of this literature, warning (for example) that these general principles of economic analysis were naïve, and that politicians might be able to jack up the burdens of one type of tax more than another.

However, to keep things simple I am not worried about political realities right now. I am simply trying to explain to readers why so many economists speak a certain way when they discuss tax reform.

With those caveats once again fresh in our minds, let me move on to another major plank in the typical mainstream case for tax reform: It is more efficient to tax consumption rather than income. Or to put it another way, raising a given amount of revenue from a tax on income will hurt the economy more than raising the same amount of money from a tax on consumption.

The intuition on this one is pretty straightforward. *Both* types of taxes—on income and on consumption—are distortionary because they artificially reduce the reward for selling productive factors. For example, a tax on income or a tax on consumption makes it less advantageous for a worker to sell his labor hours for money, since his wages will directly be taxed (under an income tax) *or* products will be taxed when he goes into the marketplace with his wages. Either way, the marginal benefit of selling labor for wages is reduced, and so the typical worker will choose more leisure in the presence of either a tax on income or a tax on consumption.



A tax on income messes up the saving/consumption decision too, on top of the work/leisure decision.

However, there is an important sense in which the tax on income delivers a *further* distortion that the tax on consumption does not. Under a consumption tax, once the owner of a productive factor (such as a worker, but it could also be the owner of a forest selling his lumber) gets paid for selling his output, he then *optimally* allocates his income on present versus future consumption. In other words, the tax on consumption doesn't mess up the *savings* decision.

However, a tax on income messes up the saving/consumption decision too, on top of the work/leisure decision. Specifically, if you earn wages and then want to save some for future consumption, the income tax applies to the *interest, dividends, or capital gains* that you earn on those invested savings. So the income tax makes present consumption look artificially cheap (compared to the free market outcome), and it makes future consumption look artificially expensive. Thus individuals will tend to save *less* when there is an income tax rather than a consumption tax, even if these taxes are designed to raise the same amount of revenue in either case.

To sum up: Mainstream economists typically think of "tax reform" as making the tax code more efficient, so that it raises revenue while causing as little harm as possible to the economy. In this setting, "harm" is defined as moving the outcome away from the free-market outcome, such that there are "gains from trade" that people aren't taking advantage of. In order to minimize this type of inefficiency, economists often recommend a "flat" tax code with very few exemptions and deductions, and they often recommend a tax on consumption rather than on income.

Some Observations on the "Laffer Curve"

In part because Treasury Secretary Mnuchin apparently claimed that the new

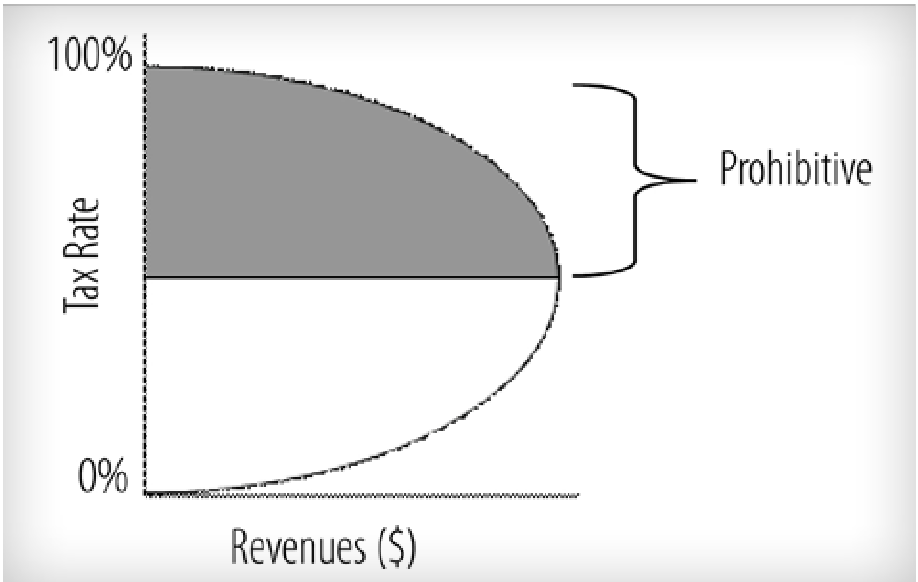
Trump tax plan would largely "pay for itself" through economic growth, many critics have been having a field day mocking the so-called Laffer Curve. In this section let me briefly explain the theory and history. (Full disclosure: I worked for Arthur Laffer when I lived in Nashville.)

Laffer's famous curve is quite simple. We can put tax *rates* on one axis and tax *revenues* on the other axis. At a 0% rate of tax, the government obviously collects $0 in revenue. But also at a 100% rate of tax, the government collects $0 in revenue, because nobody is going to work (at least on the books) if the government keeps everything.

If we hold constant other factors, then we connect the two points with a smooth curve. (This is controversial but I'm just explaining the idea.) There must be a tax rate—greater than 0% but less than 100%--that maximizes government revenue. If the current tax rate happens to be on the high end of this rate, then we have the interesting situation where *a cut in the tax rate will actually bring in more revenue to the Treasury.*

However, if we start out on the low side of this special tax rate, then cuts in the government tax rate will lead to lower revenue. Yet even here, the loss in revenue is not as bad as one might have thought, without considering the "supply side" effect.

For example, suppose the income tax rate is originally at 20%, and at that rate people in the economy collectively earn $1 trillion in income. Then the tax brings in $200 billion in revenue.



Anybody who says, "Arthur Laffer always said tax cuts pay for themselves" is claiming that Laffer couldn't read his own curve.

Now suppose that the government cuts the tax rate from 20% down to 10%. If we assume that taxes have no influence on work effort, then we would think tax revenues would fall in half as well. But suppose that at the lower tax rate, people work longer hours, they take more stressful but higher paying jobs, they take higher paying jobs that involve a longer commute, they relocate to a major city where they earn a higher income, etc. Add all of these effects up, and now people collectively earn $1.4 trillion, rather than the original $1 trillion. At the new, low tax rate of 10%, the government brings in $140 billion in receipts. This is smaller than $200 billion, but it's larger than $100 billion. So in this case the supply-side effect actually "paid for 40% of the tax cut."

The Reagan Record

Progressive Democrats have done a good job convincing people that the Reagan years disproved the Laffer Curve. First of all, such a claim makes no sense: The Laffer Curve itself shows that tax receipts might go down, depending on where we originally were on the curve. Anybody who says, "Arthur Laffer always said tax cuts pay for themselves" is claiming that Laffer couldn't read his own curve. Give me a break.

But there is a deeper dishonesty involved in the typical critique of the Reagan record. The simple fact is that Congress passed legislation and Reagan then signed into law *massive* tax rate reductions, taking the top rate down (in steps) from 70% at the start eventually to 28% after the 1986 Tax Reform Act. Yet despite this large rate reduction, total tax receipts rose in virtually every year. The table below shows the specifics.

Table 1. Total Federal Receipts in Historical Dollars, Top Income Tax Rate, 1980-1989. (Tax receipts by Fiscal Year.)

Year	Total Federal Receipts	Top Personal Income Tax Rate
1980	$517 billion	70%
1981	$599 billion	69.13%
1982	$618 billion	50%
1983	$601 billion	50%
1984	$666 billion	50%
1985	$734 billion	50%
1986	$769 billion	50%
1987	$854 billion	38.5%
1988	$909 billion	28%
1989	$991 billion	28%

Sources: Table 1.1 from: https://obamawhitehouse.archives.gov/omb/budget/Historicals and http://www.taxpolicycenter.org/statistics/historical-highest-marginal-income-tax-rates.

(NOTE: Different accounts put different numbers for the early 1980s. There was a complicated "phased tax cut" approach that is hard to quantify for a table. See Arthur Laffer's recollection of what happened, linked in the endnotes.[4])

Keep in mind that in the drop in revenue for Fiscal Year 1983 was not merely a reflection of tax rate changes, but also the worst recession since the Great Depression caused by Paul Vocker's (relatively) tight-money policy to rein in the inflation of the 1970s. (This awful recession officially troughed in November 1982, according to the NBER dating. Fiscal Year 1983 ran from October 1, 1982 through September 30, 1983.)

Both as a snapback from the awful recession and (I would argue) in response to the enormous supply-side incentives—a tax rate reduction of 70% down to 50% meant that high-income individuals could keep $50 out of an additional $100 in income, rather than only $30—the economy surged. From the first quarter of 1983 to the first quarter of 1984, real GDP grew an astonishing 8.5%—one of the highest rates in the post-war era. For perspective, during the Obama Administration, year/year GDP growth maxed out at a measly 3.3%. And since you would have expected a sharper snapback after the Great Recession, this contrast is all the more striking.

Conclusion

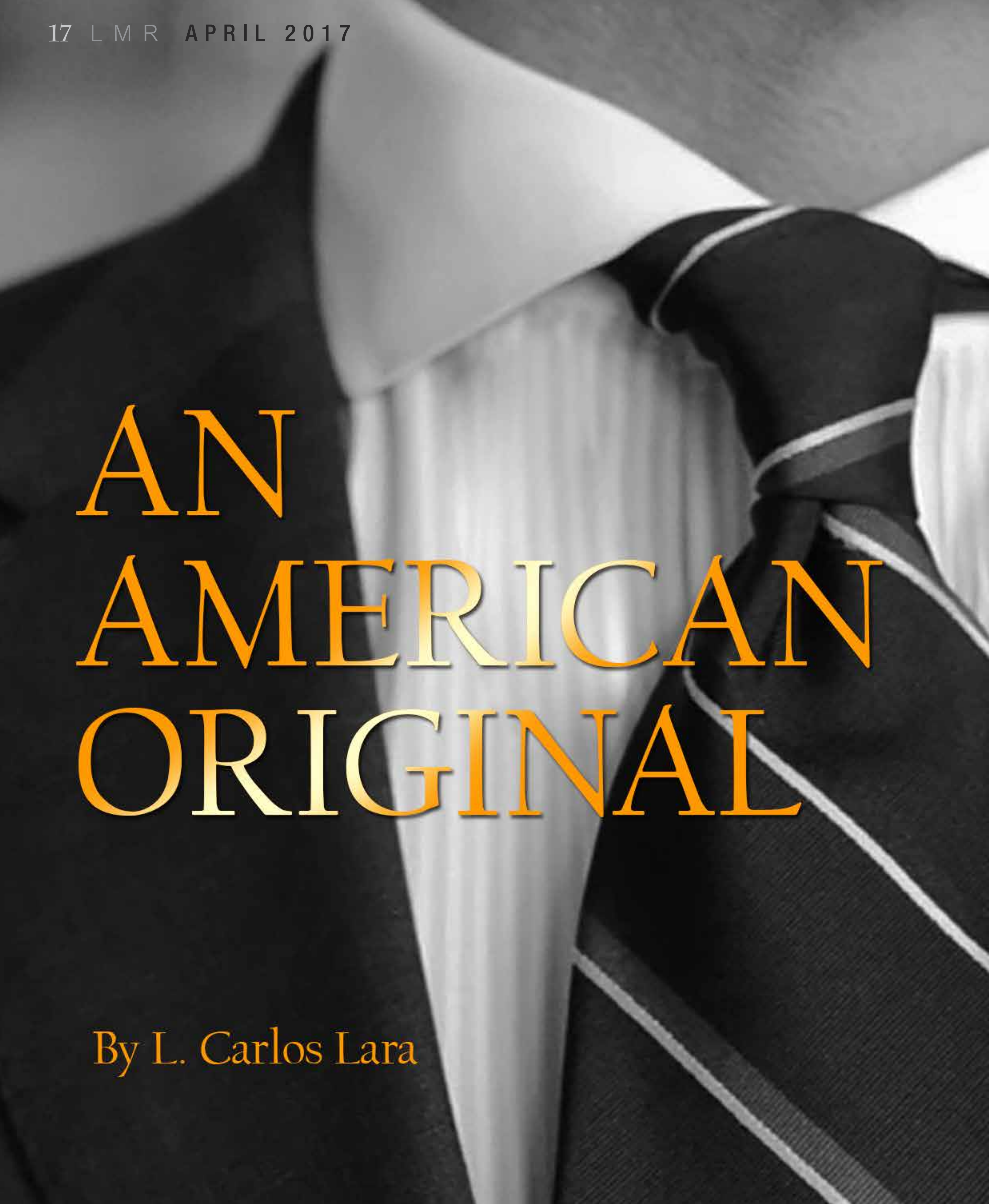
In this article I have explained some basic principles of tax reform in a mainstream economics discussion. Note that my discussion ignores both the political economy concerns of Austro-libertarians, but it also ignores the concerns for "equity" (i.e. redistribution) of a progressive. In short, I have simply talked about the standard considerations of *efficiency* in tax code design.

In addition, I set the record straight regarding the Laffer Curve and the Reagan record. Arthur Laffer never claimed that all tax cuts "pay for themselves"; his own curve shows that that is not true. However, it is certainly true that total federal receipts went up during the Reagan years, even though the top marginal income tax rate was brought from 70% down to 28%.

Although a full discussion of taxation would include the moral element—the extreme libertarian claim is that "taxation is theft"—in this article I have shown that excessive taxation can be *stupid* too. ◆◆◆

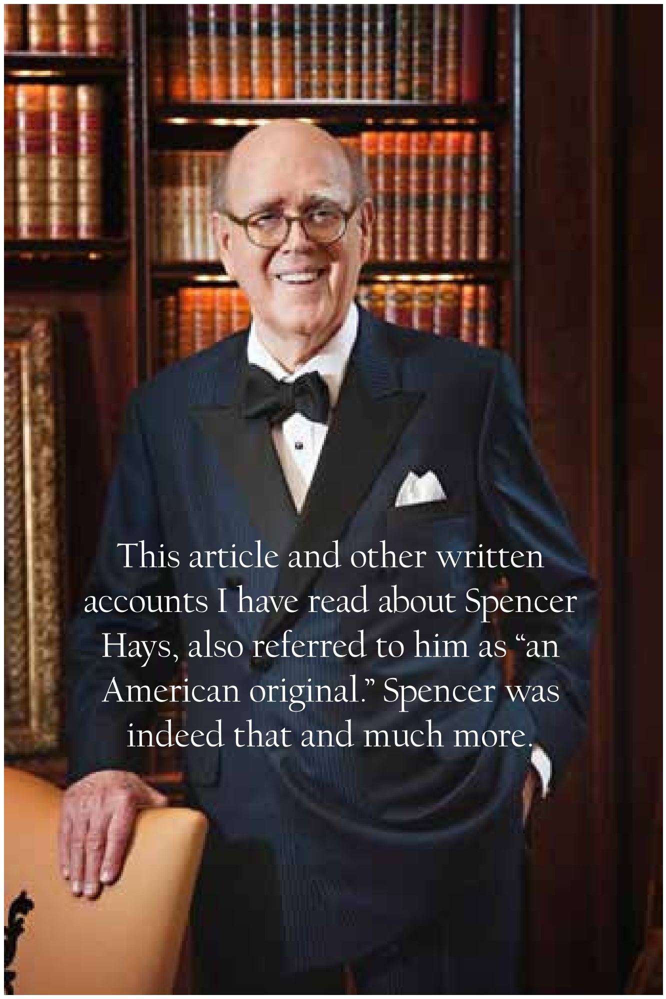
References

1. See: https://lara-murphy.com/major-problem-pro-border-adjustment-tax-bat-arguments/.
2. See: https://lara-murphy.com/podcast/episode-36-gop-tax-reform-international-trade-part-2-3/.
3. We are speaking of the typical case here. In principle it's possible that a tax on income reduces the standard of living of a worker so much that he ends up working more hours in order to avoid an intolerable level of consumption. Going the other way, it's possible that if a worker experiences a big enough raise in his hourly wage, that he ends up working fewer hours because he's so rich that he decides to "buy" more leisure than before, even though the leisure is more "expensive" at the higher wage rate. Economists distinguish between the "income effect" and "substitution effect" when the effective (after-tax) wage rate changes.
4. See Arthur Laffer, "Revisiting the Reagan Tax Cuts," May 2015, at: http://www.laffercenter.com/wp-content/uploads/2015/05/Laffer_RevisitingReaganCuts_F.pdf.



AN AMERICAN ORIGINAL

By L. Carlos Lara



This article and other written accounts I have read about Spencer Hays, also referred to him as "an American original." Spencer was indeed that and much more.

Recently I celebrated a landmark birthday that ushered in the last quarter of my life. Now that I find myself here I can honestly say that it's not so much that one gets wiser with age, but it's more about having so much more to look at in *hindsight*. From this angle you get to review and analyze all the errors you have committed in earlier years as well as the few good things you have managed to do right.

Certainly one major benefit of reaching this vantage point is in taking time to remember special personalities, acquaintances, and friends who have crossed your path along your life's journey especially when you suddenly learn of their death. In this ***LMR*** article I have chosen to write about one such individual who passed away just last month and one who left an indelible impression on me. I share his story with you because one particular anecdote of his life is very relevant to anyone who currently practices Nelson Nash's *Infinite Banking Concept (IBC),* or anyone else who is seriously thinking about doing so.

The individual's name is *Spencer Hays*[1], a name that may not immediately register with you. But if you were to do a Google search on him you would quickly learn that he was very wealthy. Probably one of the wealthiest men in Tennessee right up there next to *Fred Smith* of *Federal Express, Margaret Ingram* of *Ingram Industries,* and *Tommy Frist* of Hospital Corporation of America (HCA). Your search would also lead you to numerous articles about him including the recent *Wall Street Journal* article dated March 10, 2017[2], which gave a very accurate synopsis of his unique life. This WSJ article, similar in fashion to the title of this article and other written accounts I have read about Spencer Hays, also referred to him as *"an American original."* Spencer was indeed that and much more.

According to the various news reports Spencer Hays died in his Manhattan apartment of a brain aneurism February 28th, 2017. He was 80. His New York City apartment, an elaborate prime piece of real estate decorated by the famous interior designer Robert Denning, was only one of his three

residences. He also maintained a residence in Paris, France; the other was here in my hometown of Nashville. You couldn't fail to be impressed with this home because it was built by Hays to replicate the famous *Hotel de Noirmoutier*[3] in Paris, which was built in 1723—an absolutely gorgeous architectural structure!

"Carlos, let's you and me partner up together and build assets?"
That was back in 1980 and this was his standard line to me every time I saw him.

It was also reported that just this past October, Spencer and his wife Marlene had donated 600 paintings valued at $315 million to the French government to be displayed at the *Musee d'Orsay* in Paris. All this to say that Spencer Hays achieved his goal and obtained his heart's desire. In one article by Forbes it was estimated that Spencer Hay's net worth was approximately $500 million.

As I write this I can still remember him saying to me, *"Carlos, let's you and me partner up together and build assets?"* That was back in 1980 and this was his standard line to me every time I saw him. As a young man of 33 running an undercapitalized consulting firm, those words sounded like offers I shouldn't refuse.

SPENCER HAY'S BACKGROUND

Spencer's early childhood and background is a stark contrast to what he became in later life. Spencer grew up poor in Gainesville, Texas. His father abandoned the family when he was 7 and his grandmother, a seamstress, raised him. He met his future wife Marlene at the age of 14 and they married at age 19 while Spencer was still attending college. Despite his height of 5'10, he was awarded a basketball scholarship to Texas Christian University and graduated from there in 1959.

Soon after graduation the couple borrowed $40 from Spencer's grandmother and drove to Nashville, Tennessee to start selling Bibles door to door for the Southwestern Company[4]. The Southwestern Company is a 140-year-old business that hires college students during the summer months to sell books door to door on a commission-only basis. Its national reputation is somewhat mixed and is often criticized as being a cult organization,

yet many of Nashville's industry leaders have worked for Southwestern as college students. Most claim it was the hardest job they have ever had, yet praised it as the best sales training anywhere. Basically it's a "sink or swim" type of work and very difficult imagining anyone wanting to take this up as a career.

But Spencer's talents excelled in this type of environment where he soon rose to the top of the sales ladder and became the company's president in 1973. Ten years later (1983) Spencer had become the company's Chairman and majority stockholder. Under his leadership Southwestern grew to become a diversified employee-owned organization with many subsidiaries providing consulting services, real estate sales and investments, educational products, investments and financial planning, food products, fund raising, international work and travel programs, executive search services, exotic destination clubs, and publishing. The company's motto is *"We Build People"* and the website http://www.southwestern.com/ is worth visiting.

Many of Nashville's industry leaders have worked for Southwestern as college students. Most claim it was the hardest job they have ever had, yet praised it as the best sales training anywhere.

In 1966 Spencer had become the national sales trainer for the entire company, and he had already started his own company separate and apart from Southwestern called *Tom James (https://www.tomjames.com/)*. This company took the same door-to-door selling concept of Southwestern and reconstructed it into selling custom made suits to business executives office-to-office. Today Tom James is an international company with sales in excess of $300 million.

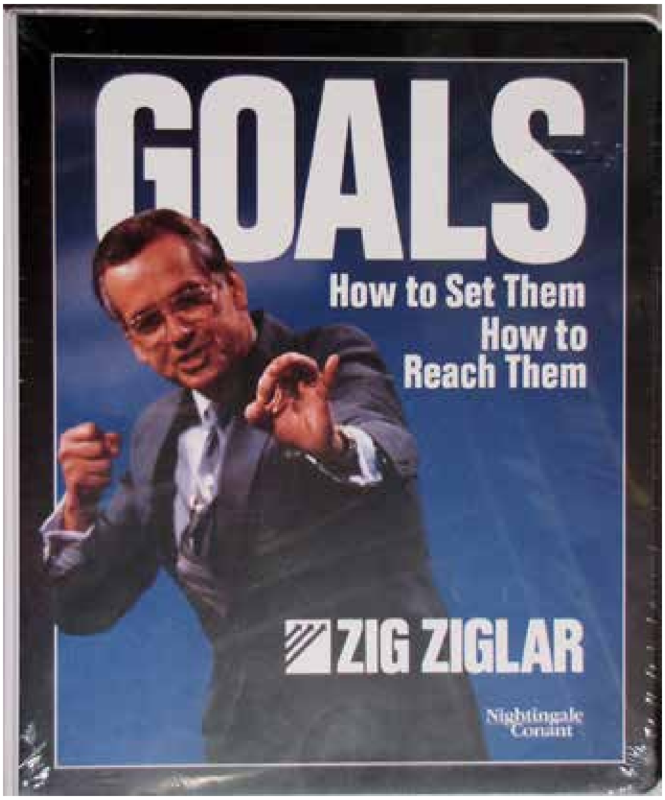
THE SPENCER HAYS THAT I KNEW

All of these companies have one thing in common: they all sell directly to the consumer, not through retailers or distributors. They go right to the general public. What makes

them so successful? Most analysts believe that it's in the training of the salespeople and that the training is mostly done by example. It's true, Spencer Hays knew how to inspire people and make his sales people believe in themselves. He was known to work right alongside his key people if they ever got into a sales slump until they came out of it. Also, he rewards his people with an above average pay based on commission selling and a stock ownership plan—truly an employee-owned organization.

> These companies have one thing in common: they all sell directly to the consumer, not through retailers or distributors. They go right to the general public.

Yet I have always believed that it was in the actual *doing* that perfected Spencer's sales force. Spencer regarded doorbell pushing as the great character builder. *"If you can sell door-to door,"* he would say, *"you can do anything,"* and he spoke with conviction because he had actually done it. In other words, there is a method and philosophy behind the training. One article in particular itemized some of these core principles as: *"Work six days a week. Don't spend more than 20 minutes with a prospect. Keep moving. Have faith in your product. Surmount rejection with eternal hope. Convince yourself that the next stop may produce the day's best customer."*[5] If you consider these principles, they are all tactics of network marketing—a sort of numbers game philosophy, combined with a form of constant, positive self-talk—because the rejection aspect of this work can be horrendous.



Perhaps this was the one thing that kept me from partnering up with Spencer Hays.

Perhaps this was the one thing that kept me from partnering up with Spencer Hays. His self-assurance was overwhelming. He was the only man I have ever met "up close and personal" who had actually perfected the science of *positive thinking*. It was a type of mental control that I used to read about in books like *The Power of Believing* by Claude Bristol, or the Dale Carnegie books—*How To Win Friends And Influence People*, and the famous *Think and Grow Rich* by Napoleon Hill. Upon encountering Spencer's persona for the first time he breathed and lived this attitude. On the one hand I was driven to question his motives while on the other hand I couldn't help admiring him.

The truth was that Spencer was known to devour positive thinking books and audiotapes on goal setting of this type. These early classics were the precursors to the Tony Robbins type of philosophy of today. If you ever asked Spencer how he was doing he was quick to reply with phrases like, *"I feel wonderful! I feel fit! I feel healthy—and I feel successful!"* I often wondered if he was answering me or talking to himself. But no matter what you or I may think about this sort of mental attitude it obviously worked. After all he did accomplish his goal.

Spencer was iconic. He instantly captured your attention because his dress style was eye-catching—very British and impeccable. He had the most outrageous, bushiest eyebrows I have ever seen on a man. And his business card stated only this, "Spencer Hays—SALESMAN." Yet behind this charismatic facade I came to realize that Spencer Hays was the shrewdest businessman I have ever met. He carried a sharp pencil and knew how to negotiate a deal. Consequently, I developed a healthy respect for him in the years that I knew him—and kept my distance.

Apparently, I wasn't the only one who felt this way about Spencer. *The Daily News Record*, a New York publication on the Footwear and Apparel Industry, reported in an article[6] that others had similar experiences like mine:

"Spencer is a very friendly competitor—one you keep at arm's length."

—Joseph Barrato, CEO Brioni USA

"I've known Spencer for at least 10 years and every time we speak he wants to be my partner. I agreed to be his 50-50 partner and I am still waiting on him to sign the agreement. I have never met a person in our industry as clever as him."

—Martin Greenfield, CEO Greenfield Clothiers

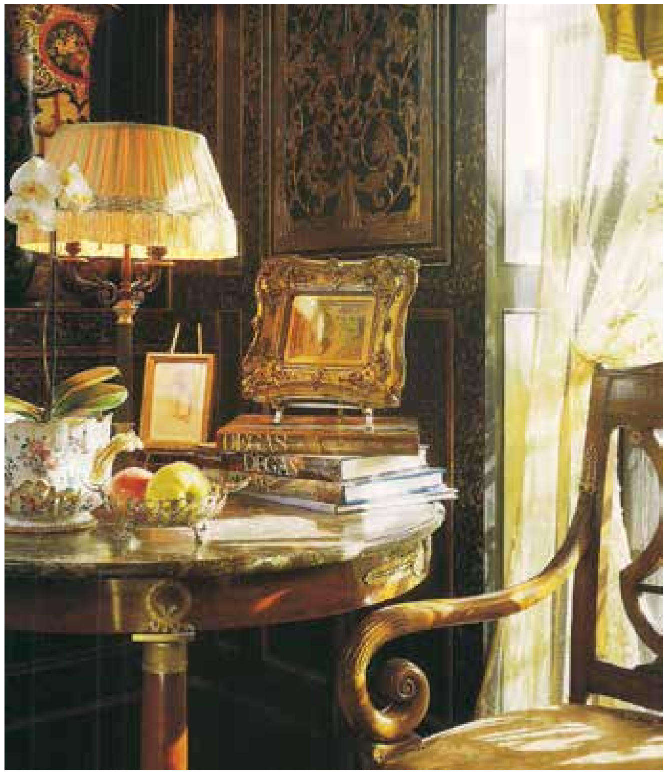
"He's charming and gentle when he's selling and ruthlessly pushes the envelope when he's negotiating. He's the classic velvet glove over an iron fist."

—Robert Sakowitz, CEO Hazak Corporate Consulting

"He's the most tenacious negotiator I've ever seen. He's so warm and attentive that after you're finished with him you have to count your fingers."

—Marty Staff, CEO Hugo Boss USA

On account of his wealth building acumen I once asked Spencer if he ever invested in real estate, stocks, or bonds. He first grinned and then said he enjoyed saving money in places where his money was constantly compounding. He also enjoyed investing in the stock of companies, but preferred to own them outright. Years later, after I had lost contact with him, I often wondered where he actually saved his money. Then in 2001 I read an article, again, in *The Daily News Record* that answered my question once and for all. This is where the IBC connection comes in.



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The article stated that Spencer Hays was attempting a hostile takeover of the beleaguered Hart Shaftner and Marx apparel conglomerate (Hartmarx). Hays had tendered an offer of $4.50 a share to buy the Chicago-based apparel maker, for a total of $34 million. Hartmarx sued Hays on grounds of misleading investors and claiming that Spencer did not have the ready financial resources to tender such an offer. This forced Hays to make a full declaration in court attesting to his commitment. The breakdown on that amount was disclosed and showed the following:

> **"$3.8 million set aside in a special bank account.**
> **$7.4 million from an existing bank line of credit.**
> **$22.8 million from the cash surrender value of Hay's life insurance policy"[7]**
>
> **—The Daily News Record**
> **October 1, 2001**

Here again is yet another great example that smashes the absurd notion that *dividend paying Whole-Life insurance* is (allegedly) the worst place to put your money! If that's true why do the wealthy have millions of dollars stored there?

CONCLUSION

Spencer Hay's life story is a testimony of financial success. I was privileged to have known him during the beginnings of my own career and learned a great deal from interacting with him. Although we came very close on numerous occasions we never consummated a deal together.

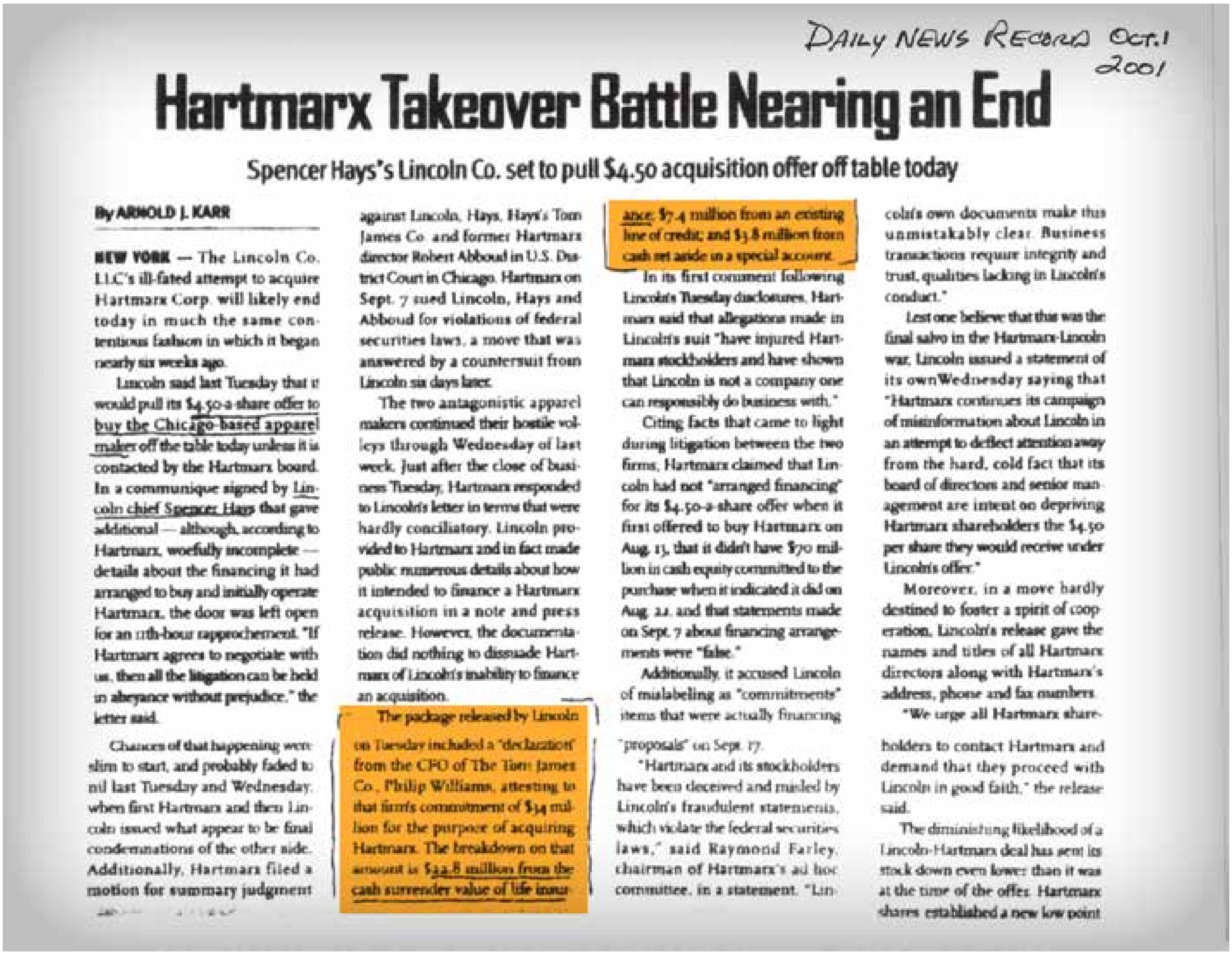
Spencer was already quite wealthy when I met him in 1980. For me *Austrian economics,* and *Nelson Nash's IBC* were still ideas far away in the distant future. But the 1986 Tax Reform Act that brought the commercial and residential real-estate markets to their knees followed by *Black Monday,* the worst stock market crash in history up to that time, was just six short years around the corner. In light of the aftermath, was Spencer Hays one of those wealthy individuals who were advised by tax attorneys to put all of their money into a "single premium Whole-Life

Here again is yet another great example that smashes the absurd notion that dividend paying Whole-Life insurance is (allegedly) the worst place to put your money!

policy" during those harsh economic times? (For further reading on this historical period see my article in the August 2014 ***LMR*** entitled, "The Modified Endowment Contract aka The MEC.")[8]

That's one question I will never get a chance to ask him. Yet, in that one *Daily News Record* article the truth is there for all of us to read. Spencer Hays obviously knew about Whole-Life insurance and he put his money into it. To make that tender offer of $34 million to purchase Hartmarx he would have had to take out a policy loan in order to make that investment and in that process right there he would have practiced IBC. Fantastic!

For those of us who are proponents of Nash's IBC philosophy as best described in



Daily News Record Oct. 1 2001

Hartmarx Takeover Battle Nearing an End

Spencer Hays's Lincoln Co. set to pull $4.50 acquisition offer off table today

By ARNOLD J. KARR

NEW YORK — The Lincoln Co. LLC's ill-fated attempt to acquire Hartmarx Corp. will likely end today in much the same contentious fashion in which it began nearly six weeks ago.

Lincoln said last Tuesday that it would pull its $4.50-a-share offer to buy the Chicago-based apparel maker off the table today unless it is contacted by the Hartmarx board. In a communique signed by Lincoln chief Spencer Hays that gave additional — although, according to Hartmarx, woefully incomplete — details about the financing it had arranged to buy and initially operate Hartmarx, the door was left open for an 11th-hour rapprochement. "If Hartmarx agrees to negotiate with us, then all the litigation can be held in abeyance without prejudice," the letter said.

Chances of that happening were slim to start, and probably faded to nil last Tuesday and Wednesday, when first Hartmarx and then Lincoln issued what appear to be final condemnations of the other side. Additionally, Hartmarx filed a motion for summary judgment against Lincoln, Hays, Hays's Tom James Co. and former Hartmarx director Robert Abboud in U.S. District Court in Chicago. Hartmarx on Sept. 7 sued Lincoln, Hays and Abboud for violations of federal securities laws, a move that was answered by a countersuit from Lincoln six days later.

The two antagonistic apparel makers continued their hostile volleys through Wednesday of last week. Just after the close of business Tuesday, Hartmarx responded to Lincoln's letter in terms that were hardly conciliatory. Lincoln provided to Hartmarx and in fact made public numerous details about how it intended to finance a Hartmarx acquisition in a note and press release. However, the documentation did nothing to dissuade Hartmarx of Lincoln's inability to finance an acquisition.

The package released by Lincoln on Tuesday included a "declaration" from the CFO of The Tom James Co., Philip Williams, attesting to that firm's commitment of $34 million for the purpose of acquiring Hartmarx. The breakdown on that amount is $22.8 million from the cash surrender value of life insurance; $7.4 million from an existing line of credit; and $3.8 million from cash set aside in a special account.

In its first comment following Lincoln's Tuesday disclosures, Hartmarx said that allegations made in Lincoln's suit "have injured Hartmarx stockholders and have shown that Lincoln is not a company one can responsibly do business with."

Citing facts that came to light during litigation between the two firms, Hartmarx claimed that Lincoln had not "arranged financing" for its $4.50-a-share offer when it first offered to buy Hartmarx on Aug. 13, that it didn't have $70 million in cash equity committed to the purchase when it indicated it did on Aug. 22, and that statements made on Sept. 7 about financing arrangements were "false."

Additionally, it accused Lincoln of mislabeling as "commitments" items that were actually financing "proposals" on Sept. 17.

"Hartmarx and its stockholders have been deceived and misled by Lincoln's fraudulent statements, which violate the federal securities laws," said Raymond Farley, chairman of Hartmarx's ad hoc committee, in a statement. "Lincoln's own documents make this unmistakably clear. Business transactions require integrity and trust, qualities lacking in Lincoln's conduct."

Lest one believe that this was the final salvo in the Hartmarx-Lincoln war, Lincoln issued a statement of its own Wednesday saying that "Hartmarx continues its campaign of misinformation about Lincoln in an attempt to deflect attention away from the hard, cold fact that its board of directors and senior management are intent on depriving Hartmarx shareholders the $4.50 per share they would receive under Lincoln's offer."

Moreover, in a move hardly destined to foster a spirit of cooperation, Lincoln's release gave the names and titles of all Hartmarx directors along with Hartmarx's address, phone and fax numbers.

"We urge all Hartmarx shareholders to contact Hartmarx and demand that they proceed with Lincoln in good faith," the release said.

The diminishing likelihood of a Lincoln-Hartmarx deal has sent its stock down even lower than it was at the time of the offer. Hartmarx shares established a new low point

his book, *Becoming Your Own Banker,* and in the book that Robert Murphy and I wrote, *How Privatized Banking Really Works,* Spencer Hays has left a lesson about cash value life insurance none of us should forget. Thank you, Spencer. May you rest in peace.

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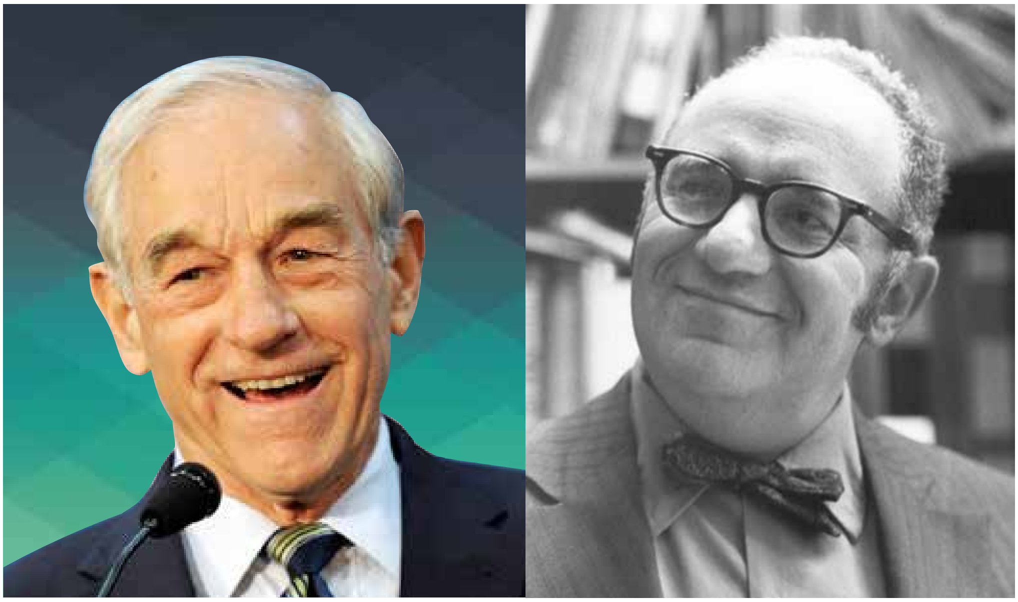
SEARCHING FOR ANSWERS

Glenn Jacobs, known to WWE fans worldwide as Kane, is one of the most successful professional wrestlers in history. Glenn is a student of history, politics, and Austrian economics. He has written articles for the Future of Freedom Foundation, LewRockwell.com, Rare.us, and the DailyCaller.com, as well as appearing on various television shows and podcasts including Freedom Watch with Judge Andrew Napolitano, the Peter Schiff Show, the Mike Church Show, and the Jerry Doyle Show. He is the co-founder of the Tennessee Liberty Alliance, a free market educational organization, and recently announced his candidacy for Knox County (TN) mayor.

Lara-Murphy Report: How did you become interested in Austrian economics?

Glenn Jacobs: My interest in Austrian economics sprang from my studies of political philosophy. Frankly, I was intimidated by the term "economics." Math wasn't exactly my forte in school and I never even took an economics course in college. So you can imagine my reluctance to delve into the study of this dreary science. Nevertheless, I kept coming across



"I kept coming across the term 'Austrian economics' when I read folks like Ron Paul and Murray Rothbard."

the term "Austrian economics" when I read folks like Ron Paul and Murray Rothbard (again, I was reading Rothbard's political writings). The final straw was when I attended a conference hosted by the Future of Freedom Foundation and Jacob Hornberger mentioned Austrian economics. So I held my breath and ordered Rothbard's "What Has Government Done to Our Money?" I was shocked and pleasantly surprised to find that the only equation in the book was the formula illustrating the potential increase in the overall money supply when a bank deposit is made.

LMR: Forgive us the obligatory wrestling question: At what point did you know you were going into that arena (pun intended)? What would you say is the public's biggest misconception about pro wrestling?

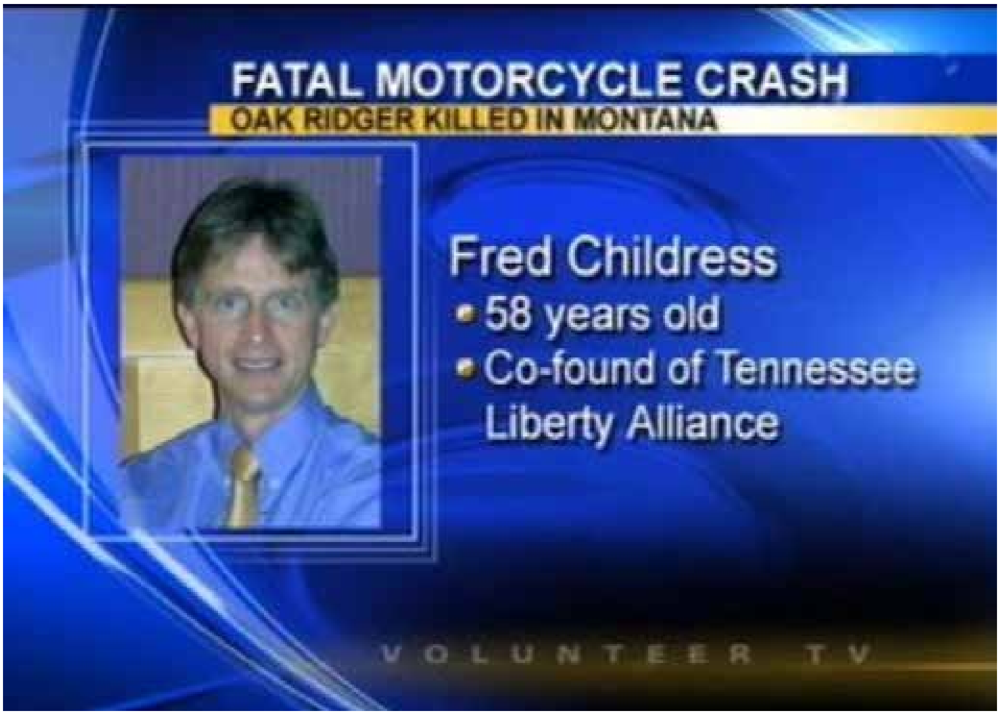
GJ: I had always been a fan of pro wrestling ever since I was a child. Growing up, I dreamed of becoming a professional athlete. Unfortunately, I suffered a very serious knee injury playing college football which ended my football career. In the end, the injury turned out to be a great thing for me because it caused me to pursue a career in wrestling.

"In the end, the injury turned out to be a great thing for me because it caused me to pursue a career in wrestling."

I think the biggest misconception about us is that we are the characters we portray on TV 24 hours a day 7 days a week 365 days a year, and that the only thing that we are interested in or capable of having an opinion on is wrestling. Luckily, that is changing.

LMR: As part of a Tennessee-based educational group, you participated in a Mises Institute event with one of us (Murphy) back in the day. How did you get into that type of outreach?

GJ: That event was held to honor my friend Fred Childress who had recently died in a motorcycle accident. Fred co-founded the Tennessee Liberty Alliance along with me. We felt there was no better way to honor him than to expose some young folks to the idea of free markets. While I believe that direct political action (electoral politics) is important when it comes to pulling us in the direction of liberty, I also believe that education is vitally important, especially among young folks. They are the future, after all.



"Fred co-founded the Tennessee Liberty Alliance along with me. We felt there was no better way to honor him than to expose some young folks to the idea of free markets."

LMR: The hot news now, of course, is that you're running for mayor of Knox County. What made you decide to throw your hat into the political ring?

GJ: I just want to have a positive impact on my community. I believe that positive change comes from the bottom up, not the top down. We have some great elected officials at the federal level who are doing what they can to stem the tide of statism. They face a monumental challenge. I think that what happens at the state and local levels is just as important as the federal level, and that we can accomplish a lot at the local level.

I'm a product of the American Dream. Where else could a farm boy from rural Missouri be able to do all that I have done? The reason that happened for me is not that I'm special or unique. I simply discovered something that I was good at and had opportunities to see where that would take me. That's what makes America so special and it's something that I feel we have a moral duty to preserve for future generations.

"What is happening is inevitable. People understand that the system is rigged against them and they are searching for answers."

LMR: What is your assessment of the recent revolution in U.S. politics? Is it good that the establishment was spanked, or is it bad that certain forces have been unleashed?

GJ: I think people are fed up with the status quo. I see two kinds of people: those who hold political power...and the rest of us. What is happening is inevitable. People understand that the system is rigged against them and they are searching for answers. It's our job to show them that liberty and free markets are that answer. ◆◆◆

EVENTS & ENGAGEMENTS

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

APRIL 7, 2017
SAN FRANCISCO, CA

Murphy discusses Misesian economics for Independent Institute.

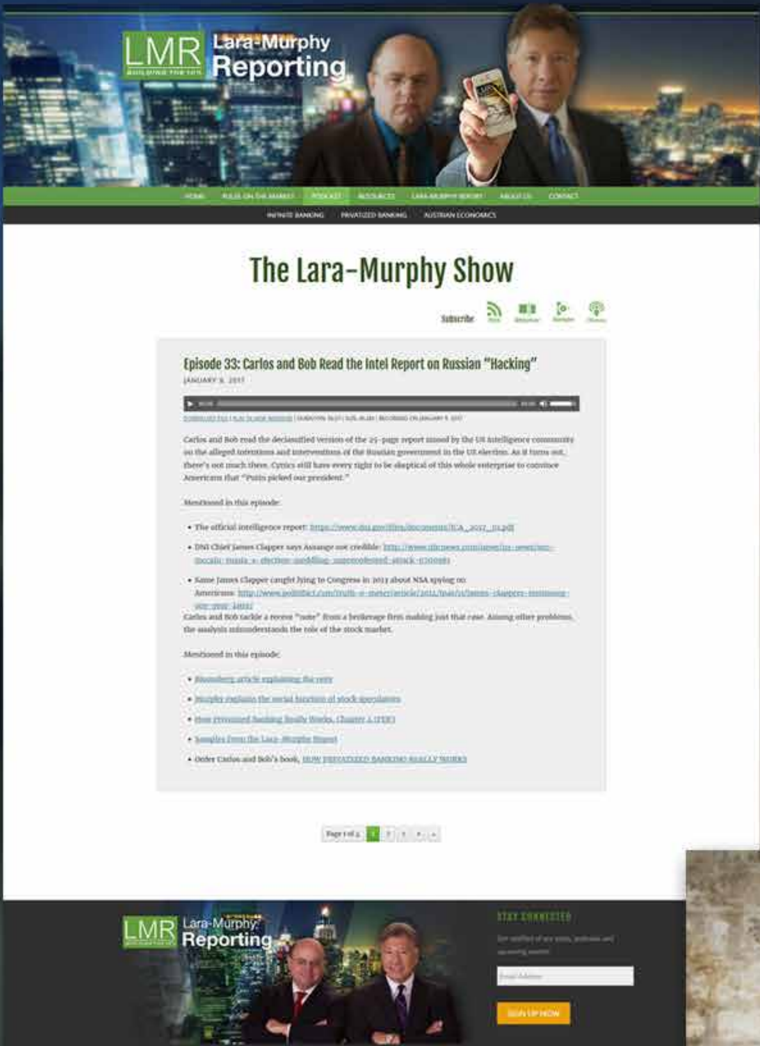
MAY 18, 2017
CHICAGO, IL

Murphy speaks on the economy for the Mises Institute.

MAY 20, 2017
SEATTLE, WA

Murphy speaks at Mises Circle.

SOME EVENTS MAY BE CLOSED TO GENERAL PUBLIC.
FOR MORE INFORMATION: LMREVENTS@USATRUSTONLINE.COM



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