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BUILDING THE 10%

JULY • 2018

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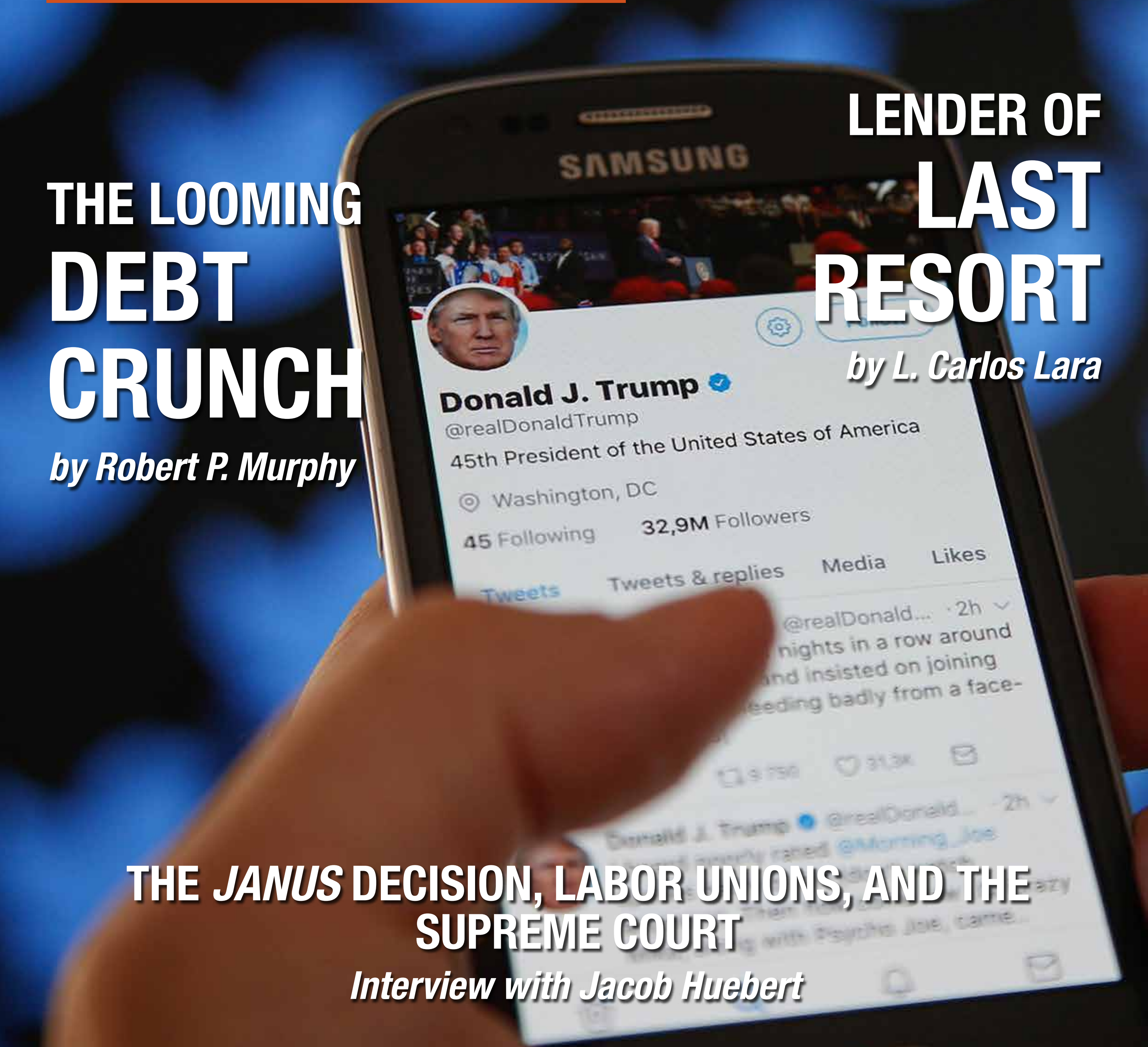
SoCa House Sales Plummet

Venezuela Currency Cutting

Trump's Trade Trick?



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ABOUT LARA & MURPHY

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

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

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

ROBERT P. MURPHY is Research Assistant Professor with the Free Market Institute at Texas Tech University. He is co-author of *How Privatized Banking Really Works*. He is the author of *Choice: Cooperation, Enterprise, and Human Action* (Independent Institute 2015) and co-host with Tom Woods of the popular podcast Contra Krugman.

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

LMR Editor in Chief: L. Carlos Lara
LMR Executive Director: Dr. Robert P. Murphy

Managing Editor: Anne B. Lara
Design Director: Stephanie Long

For Information About Advertising and Other Questions,
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> *"The eminence of the gold standard consists in the fact that it makes the determination of the monetary unit's purchasing power independent of the measures of governments…it makes it impossible for them to inflate."*
>
> *— Ludwig von Mises*

As we see history unfolding since the dollar was taken off the gold standard internationally in 1971, one of the most glaring outcomes has been the growth in the national debt coupled with the immense transfer of wealth and income to certain special groups of people at the expense of others. This discriminatory result occurred by means of *inflationary* monetary policy.

As unjustified as it may be, the need to inflate the money supply is hopelessly engrained in the minds of even those who today seem to support sound money and speak of the need for balanced budgets. It's as though we've become anesthetized by it, or even worse, addicted to it. The only explanation we have for the condition we find ourselves in today is that we have let inflation slip in through the back door while we weren't paying attention and now that it has filled up the house it's getting ready to collapse the entire structure.

This is why Mises and all other supporters of the Austrian School have for decades urged their readers and listeners to expose and kill forever the seductive notion that governments and banks have special abilities to make us all rich with money out of nowhere. We should not be led astray by the spending of this newly created money. While it's true that credit expansion does initially generate jobs when banks are able to lend money to businesses at low interest rates, the secondary effects of that inflation is that it creates malinvestments that eventually will need to be liquidated. That liquidation process, when it finally comes, is always painful, and generates the periods of high unemployment that we associate with recessions and crises.

It's important to realize that inflation does not affect the prices of all goods and services in the same way and at the same time. This price inconsistency creates winners and losers in an economy. The winners are those who get first access to the newly created money and are able to buy goods and services at the prevailing prices before they go up to adjust to the new demand. The losers are the people who are forced to pay the higher prices when their own incomes or the things they sell have not gone up in price proportionally. (Economists call this phenomenon "Cantillon effects," named after the economist who first described the process.) These subtleties are easily missed during the inflationary process and help explain the initial popularity of inflation.

What makes a return to sound money such a slim proposition today is that although we may complain about the disastrous affects of inflation when its stranglehold finally grips us, too many Americans still continue to support deficit spending as well as the programs that could not go on without it. This is what we see at the polls. These are deliberate actions taken by those who stand to benefit by inflation and then aided by all others that simply fail to understand how inflation *really* works.

When we can with clear minds understand that chronic inflation causes the boom-bust cycle and eventually leads to the destruction of our entire monetary system, only then can we develop the desire to teach others how to reverse this present course.

When combined with Nelson Nash's *Infinite Banking Concept (IBC),* the Austrian prescription and the *Sound Money Solution* (outlined in our first joint book, *How Privatized Banking **Really** Works*) is the way out of this baffling maze. This is the agenda of the remnant and its motto of "Building the 10%." To this end, thank you for your continued support.

Yours truly,

Carlos and Bob

SoCa House Sales Plummet

HOUSING SALES IN SOUTHERN CALIFORNIA CRASH

A CNBC article by Diana Olick reports that in Southern California, in June the sales of new and existing homes were down 11.8 percent year over year, while the median price of home sales in the region was a record-high $536,250.

The article explained the sharp dropoff in sales as due to lack of affordability, restraint in new home construction, as well as the rise in mortgage rates. (Of course, economists realize that these all feed in together and are not independent causes.)

Some of the other nationwide indices do not yet show signs of a slowdown in home sales, though the CNBC article warns that the SoCa market often anticipates what happens later in the country.

In general we wouldn't make much of one month's numbers confined to a single state, but we have been concerned about the health of the real estate market. The following chart indicates that a popular index of U.S. home prices has long since surpassed its peak from before the crash, and is currently about 9% higher than that earlier peak:

(Note that the above chart doesn't take into account general price inflation; it is a nominal index.)

Since we believe that the Fed's policies since the fall of 2008 have inflated giant asset bubbles, we naturally believe that housing too is overpriced. We don't have a crystal ball and can't offer guidance on specific timing, but as the Fed continues to raise rates and mortgage rates continue to rise (they have another 2 percentage points to go, before returning to pre-crisis levels—see the following chart), it is only natural to expect housing to take a hit.

Venezuela Currency Cutting

MADURO ANNOUNCES PLAN TO REMOVE FIVE 0S FROM CURRENCY

In the "Not From the Onion" category, a Reuters article by Brian Ellsworth reports: *"Venezuela will remove five zeroes from the bolivar currency rather than the three zeroes originally planned, President Nicolas Maduro said on Wednesday, in an effort to keep up with inflation projected to reach 1 million percent this year."*

Folks, this is tragic, not only because of the human suffering involved, but because it *was so predictable and avoidable.*

PULSE ON THE MARKET

Yes, there are many factors at work. The price of oil fell sharply in 2014, and Washington has imposed sanctions on the Venezuelan regime. But you don't see other OPEC countries—not even Iran—suffering from 1 million percent price inflation, or see their people literally eating dogs in the street, which is happening in Venezuela.

This is why we stress the importance of basic economic literacy. What happened in Venezuela is textbook: the government ran the printing press to pay its expenses, which made the value of its currency plummet. Rather than letting market prices rise to reflect reality, the government imposed strict price controls, making it illegal for merchants to pass on the skyrocketing costs of obtaining products. When the government makes it illegal to break even (let alone turn a profit) on your merchandise, what do you do as a shopkeeper? You obviously stop stocking your shelves.

Ironically, even the Reuters article botches basic economics. It says, "*Venezuela's minimum wage is now about the equivalent of $1 a month, which has left citizens across the country unable to eat properly or obtain basic medical care—fueling an exodus of Venezuelans seeking to escape the economic crisis.*"

The Reuters reporter seems to think that if only Maduro would raise the minimum wage to keep pace with the price inflation, that that would somehow render it possible for average workers to obtain toilet paper and food. No, the problem is that merchants aren't allowed to charge the market-clearing price for their wares. *That's* why there are shortages.

If, on top of this condition, the government *also* insisted that businesses had to pay workers more than what their productivity generated, then that wouldn't put more items on the shelves. Instead, it would lead to layoffs (depending on how artificially high the government tried to set the minimum wage floor), so that fewer workers would be able to get a job. So total production would go *down,* exacerbating the problem.

It is a sad state of affairs when Venezuela's problem is due to price controls (specifically, price ceilings on food and other essentials), and a Reuters reporter seems to suggest that another form of price control (specifically, a price floor on wages) could help.

Trump's Trade Trick?

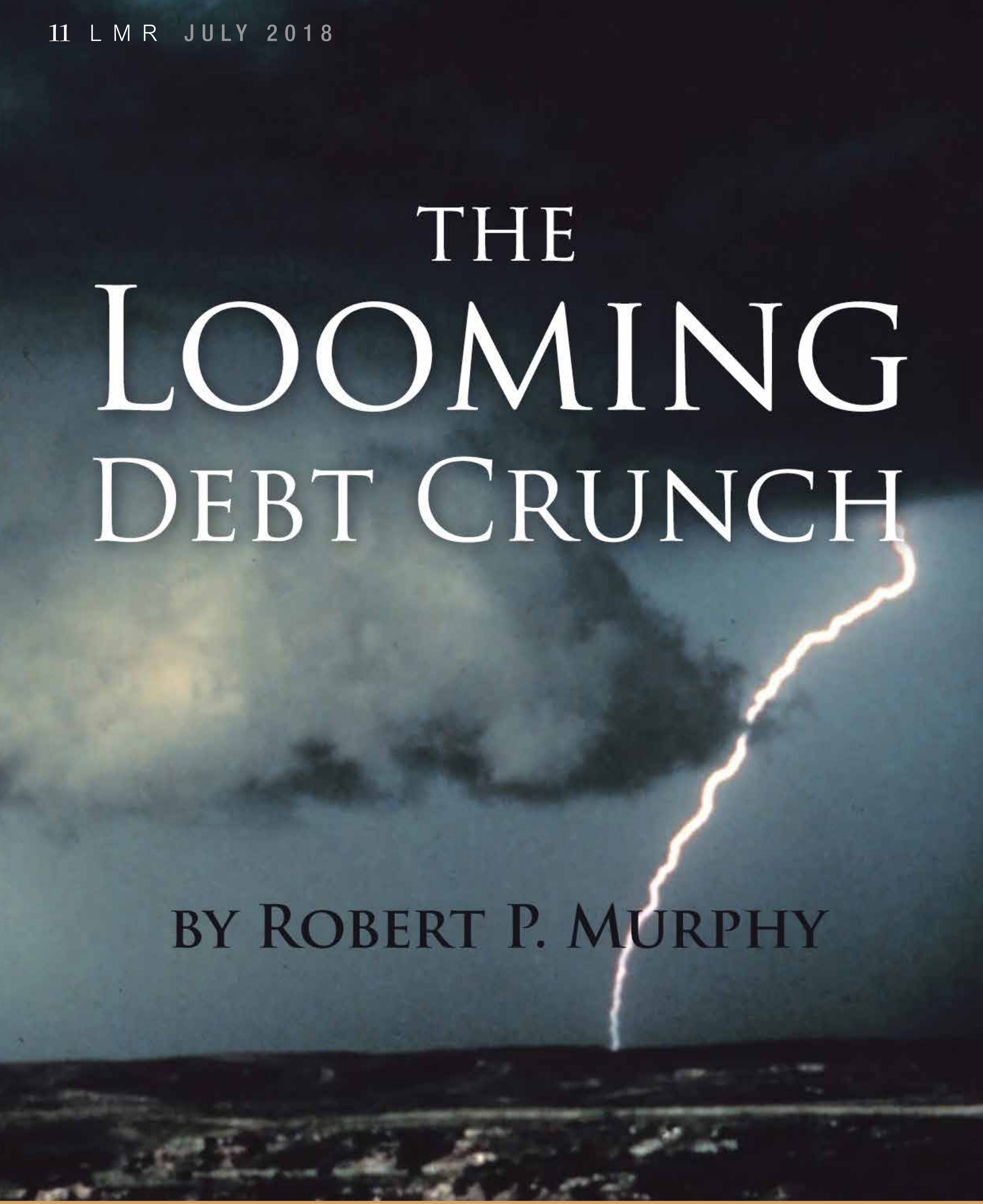
EU TRADE WAR TENSIONS EASE

As of this writing, it seems that the possibility of a U.S. trade war (with Europe, at least) are subsiding. What is extremely interesting is that Trump on several occasions has suggested that he is willing to have zero tariffs, at least on certain classes of goods, so long as our trading partners reciprocate.

Perhaps it's foolish to attribute a grand plan to the gyrations in Trump's pronouncements, but we must admit, if the goal all along were to push for much freer trade, Trump has pulled a rabbit out of his hat. By going to the brink of a trade war (and for all we know, we will end up with one anyway), Trump got even old-school Democrats to sing the virtues of free trade—something they never would have done, back when (say) George W. Bush was in office. Every time Trump tweeted out something (admittedly absurd) about trade deficits, left-leaning economists rolled their eyes at how the Madman in the White House was ignoring centuries of economic wisdom.

In that context, then, when Trump suddenly offers *zero* tariffs to our European partners, it's hard for his critics to turn around and deny the gesture.

We'll have to see what happens, but just as Trump had everyone *first* alarmed he would start World War 3 with North Korea, and *then* complaining that Trump was giving away the store to the petty dictator, we have a similar pattern on trade negotiations. It's entirely possible that we will end up with lower barriers to trade once the dust settles, where both sides can plausibly emerge with a face-saving deal that is actually better than where we began.



THE LOOMING DEBT CRUNCH

BY ROBERT P. MURPHY

There are so many items competing for the average American's attention that the federal government's debt burden seems too boring to discuss. And yet, as the latest report from the Congressional Budget Office (CBO) illustrates,[1] Uncle Sam is in serious fiscal trouble. I believe what happened is that the Obama budgets and Bernanke QE programs pushed official numbers into the trillion-with-a-T category, so that now Americans have become desensitized to what would have been absolutely shocking just a dozen years ago.

Americans have become desensitized to what would have been absolutely shocking just a dozen years ago.

In this article, I won't need to do too much except highlight some of the figures and charts from the CBO report. As we will see, even these "official" numbers—which are very optimistic, as I'll explain—are plenty bleak. To make my point, I don't need to do anything beyond explaining to readers just what is contained in this report.

Why These Projections Are *Optimistic*

Before diving into the details, let's understand that these projections are *rosy scenarios.* In particular, the CBO doesn't build in any assumption of a recession (let alone a major depression), and it doesn't assume that international investors ever panic and dump Treasuries or the dollar.

Yet all three of these scenarios—namely, a very bad economic crash, a spike in Treasury yields, and a sharp fall in the purchasing power of the USD—are ones that Carlos and I believe lie in our future. (See the video at our website for more details.[2]) From our perspective, an economic crash is the clear and present danger, while the other threats may not manifest until further down the road.

However, the CBO long-term forecast

goes out *thirty years* (to fiscal year 2048), and within that broad horizon, Carlos and I *definitely* think a Treasury/dollar crash are very real possibilities—certainly if things in Washington continue along their current trajectory.

To be clear, the CBO report *does* take into account the fact that the Fed is tightening, and that the accumulation of federal debt will push up Treasury yields. Specifically, the CBO modeling assumes:

> *The nominal interest rate on 10-year Treasury notes is projected to average 4.1 percent over the 2018–2048 period and to reach 4.8 percent in 2048. The real interest rate on 10-year Treasury notes is projected to average about 1.7 percent and, at the end of the period, to be 2.4 percent. [CBO 2018, p. 44]*

For comparison, currently the nominal yield on 10-year Treasuries is 2.96%, while the real yield (i.e. on TIPS) is a mere 0.84%.[3] Thus we can see that the CBO isn't naively assuming the rock-bottom interest rates of recent years will continue into the future.

Even so, my modest point is that the following CBO projections—which are absolutely awful—do *not* assume any calamity, but instead are based on optimistically conservative assumptions about GDP growth and interest rates.

Besides the optimistic projections about the economy, there is another "cheat" embedded in the CBO projections: They are assuming that "current law" will hold, which involves the expiration of the personal income tax rate reductions that were included in the massive Trump tax reform package. Specifically, tax receipts as a share of GDP are projected to jump 0.6 percentage points in 2026,[4] due to the built-in sunsetting of the individual (but not the corporate) income tax rate cuts contained in the recent legislation.

Tax receipts as a share of GDP are projected to jump 0.6 percentage points in 2026, due to the built-in sunsetting of the individual (but not the corporate) income tax rate cuts contained in the recent legislation.

Yet as many cynics observed when it

passed, the Republican tax cut package combined permanent corporate tax rate cuts, along with "temporary" personal income tax cuts, because (a) this would lower the official "cost" of the package on the front end but (b) would likely *not* be fulfilled in practice, because legislators in 2025 will have a huge incentive to "extend the Trump tax cuts," rather than letting average people get socked with a huge tax hike.

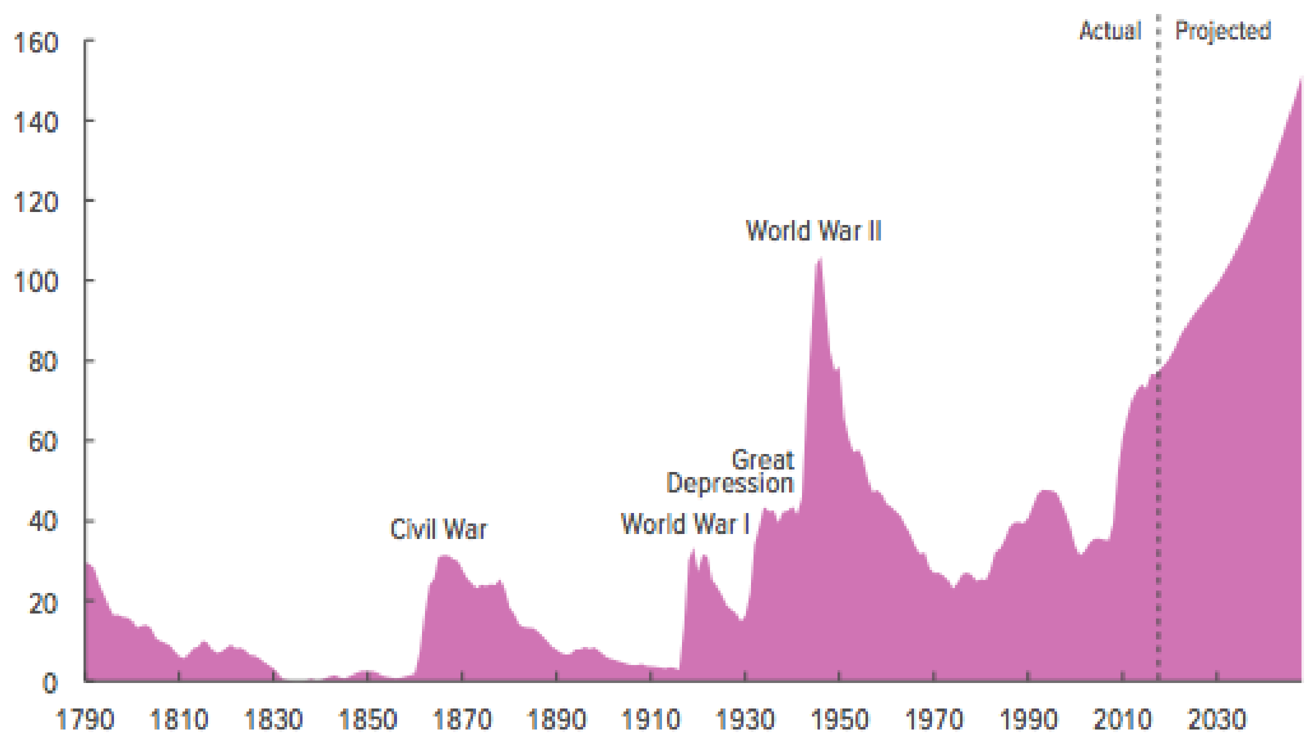
So to be clear, the following CBO projections assume a jump in tax receipts from 2026 onward, because "current law" builds in a scheduled personal income tax rate hike that may not occur in practice. This is yet another reason that the CBO projections are, if anything, *too* optimistic.

The Surging Federal Debt

The most important takeaway from the CBO report is the following chart, which shows the federal government's debt, relative to the size of the economy.

To be clear, the below chart expresses the federal government's debt (held by the public, so it excludes the Social Security "trust

Figure 1. Federal Government Debt Held By the Public, as Share of GDP



Source: CBO 2018 Long-Term Budget Outlook fund" and other intragovernmental holdings) *as a percentage of GDP*, meaning that it is already normalized in terms of how big our economy is, and thus (indirectly) how much weaker the dollar is today, compared to decades or centuries ago.

Yet even when we make the comparison apples-to-apples in this fashion, we see that the *current* size of the federal debt—namely, 78% of GDP—dwarfs the debt of any time in U.S. history except World War II. Even amidst the massive borrowing during World War I, the federal debt (relative to the economy) only rose to about *half* of its current level.

But wait, it gets worse. Unless federal fiscal policies are significantly altered, the debt is projected to rise rapidly from this point forward. Specifically, CBO's baseline forecast shows the debt by the year 2034 would surpass 106% of GDP, which was the all-time peak back during World War II. And yet it would keep climbing, hitting an unprecedented 152% of GDP by the year 2048, the end of CBO's forecast horizon.[5]

I don't want to suggest that the looming debt crunch is *literally* unavoidable.

Why WW2 Is a Misleading Comparison

Now some readers might look at the above figure and respond, *"Sure, that looks bleak. But hey, we're still not quite as bad as we were back in the late 1940s, and we bounced back strong from that. The 1950s were a bustling time and the federal debt came down sharply, if not in dollar-terms, at least as a share of the economy. So with the right pro-growth policies, can't we do it again?"*

Now to be sure, I don't want to suggest that the looming debt crunch is *literally* unavoidable. If a Ron Paul-type became president, and the Congress all became avid listeners of the Lara-Murphy Show, and a goldbug became the Fed chair, then there would still be a giant crash—we think that's unavoidable, given the malinvestments during the Bernanke years—but after that, the U.S. would be on the road to solid recovery. The federal government could wind down its foreign military operations, and on the home-front wean Americans off of their financial dependency.

However, I do not think such a scenario is likely. Rather, it seems to me that Uncle Sam will continue on this unsustainable trajectory until a major crisis forces genuine austerity.

In any event, comparisons with World War II are misleading. Back during the 1940s, the spike in the U.S. federal debt (to 106% of GDP) was caused, of course, by the massive deficit-financed military spending during the war years. After the war ended, it was easy enough politically for the government to slash spending drastically. (See Table 1.)

As the table illustrates, the reason the U.S. government "walked back from the brink" of a fiscal crisis after World War II, is that it drastically slashed spending. Specifically, total federal outlays were about $93 billion in 1945, but in 1947 federal outlays had been slashed to $34 billion—a more than *60 per-*

Table 1. Federal Government Receipts and Expenditures as Share of GDP, 1940-1949

Year	GDP (billions)	Receipts	Outlays	Surplus or Deficit
1940	$98.2	6.7%	9.6%	-3.0%
1941	$116.2	7.5%	11.7%	-4.3%
1942	$147.7	9.9%	23.8%	-13.9%
1943	$184.6	13.0%	42.6%	-29.6%
1944	$213.8	20.5%	42.7%	-22.2%
1945	$226.4	19.9%	41.0%	-21.0%
1946	$228.0	17.2%	24.2%	-7.0%
1947	$238.9	16.1%	14.4%	1.7%
1948	$262.4	15.8%	11.3%	4.5%
1949	$276.8	14.2%	14.0%	0.2%

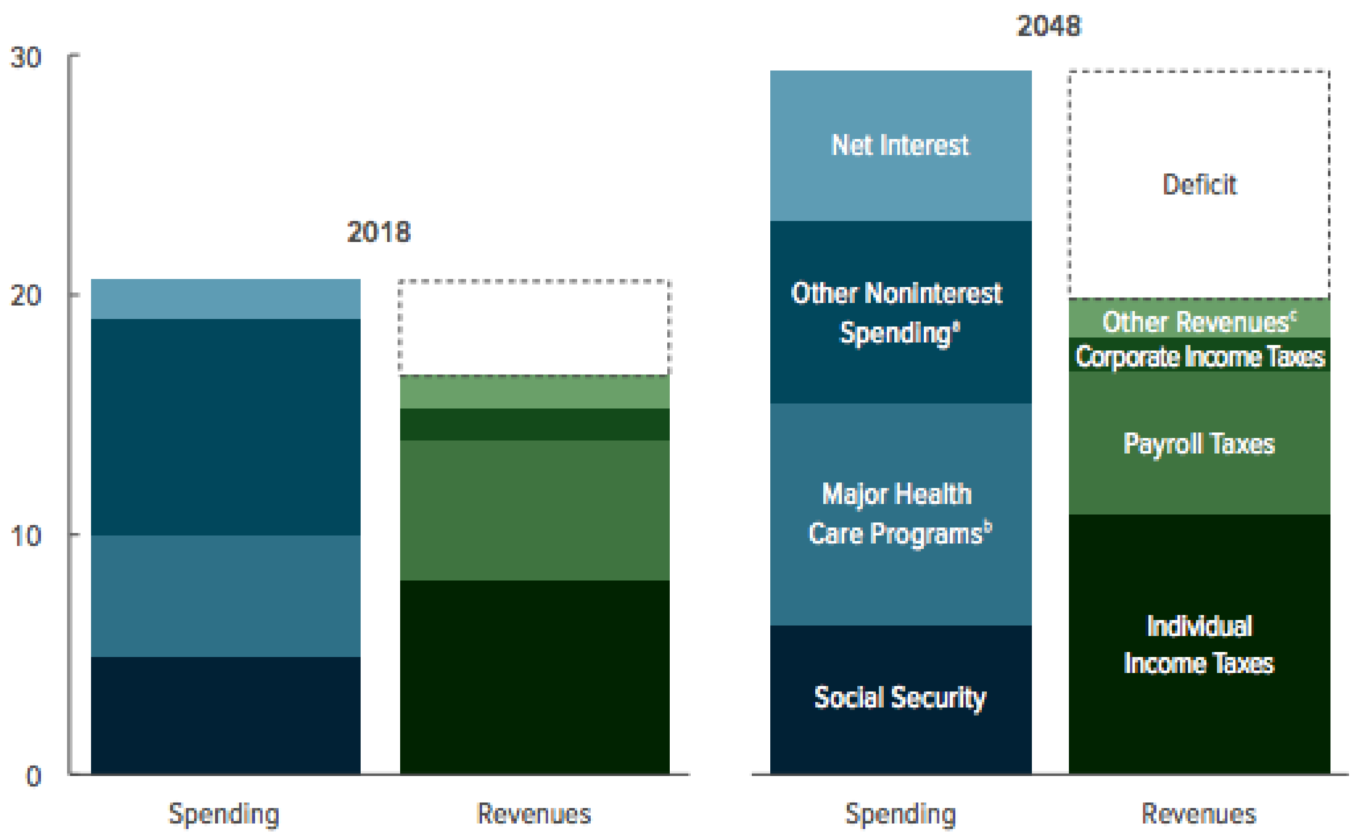
Source: White House Historical Budget Tables[6] *cent* reduction in total federal spending in a mere two years!

In total contrast, our current budget mess isn't due to a one-off crisis such as "fighting the Nazis." Yes, the mushrooming red ink during the Obama years was partially the fault of the Great Recession—because tax receipts fell and the government "had to" (according to the Keynesians) increase spending. But as the CBO chart earlier showed, the debt is projected to keep growing, even if the economy continues with its "normal" recovery.

The Components of Federal Finances Going Forward

To give the reader a sense of what's happening, I'll reproduce one more chart from the CBO report. Specifically, Figure 2 shows the composition of federal finances, both currently and in 2048.

Figure 2. Composition of Federal Finances, Current vs. CBO 2048 Forecast, as Share of GDP



Source: CBO 2018 Long-Term Budget Outlook

As Figure 2 makes clear, the drivers of federal spending are Social Security, Medicare, and other health care programs (such as Medicaid and the Affordable Care Act), as well as interest payments on the accumulating debt. So-called discretionary spending (which includes the military budget) actually *drops* as a share of the economy, from 6.3% in 2018 to 5.5% in the last decade of the CBO horizon. Furthermore, notice that the total green column is stacked higher on the right side of Figure 2, showing that total tax receipts (as a share of the economy) are several percentage points higher in 2048 than in 2018.

Yet even though CBO assumes the feds can cut discretionary spending, and boost tax receipts, Figure 2 shows how much bigger the deficit will be, at the end of the planning period. Rising interest rates and the aging U.S. population make the current tax code and entitlement programs fiscally unsustainable.

Conclusion

Growing up, I would periodically hear conservatives and libertarians lament the need to get entitlement spending under control, because the growing "unfunded liabilities" of Social Security and Medicare would eventually lead to a crisis.

That time is upon us. The current budget situation is nothing at all like the immediate postwar era, when the government could slash spending in half without sacrificing any social programs. No, the only way to return to fiscal solvency is for the American people to stop expecting Washington to pay for their retirement and health care.

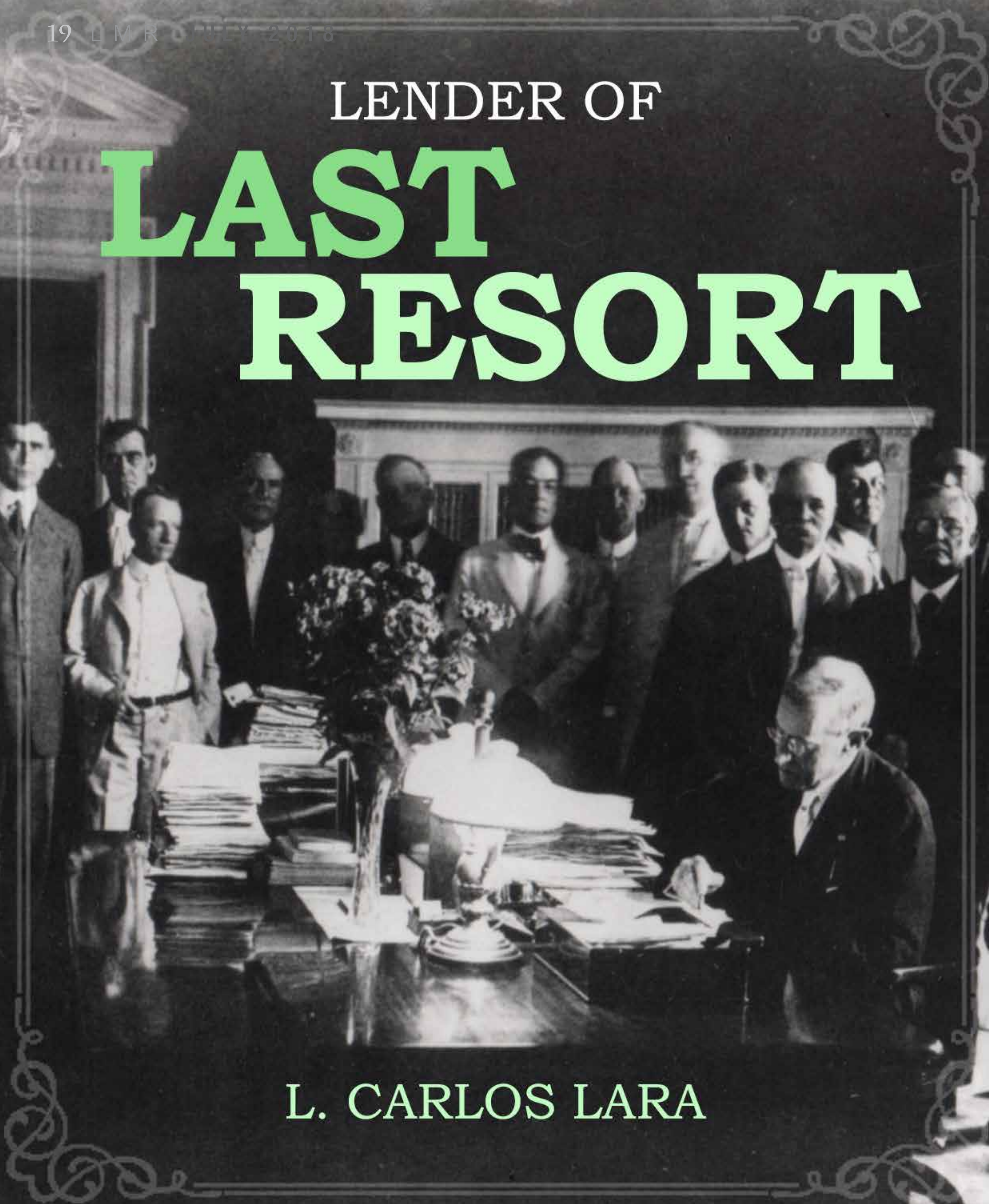
In anticipation of this looming debt crunch, prudent American households and business owners will get their own warehouses of wealth ready. If you haven't yet investigated Nelson Nash's Infinite Banking Concept (IBC), now is the time to start. Check out the introductory material at our website, www.Lara-Murphy.com, and better yet get your copy of our new book available at www.TheCaseForIBC.com.

◆◆◆

References

1. Specifically, all of the tables and charts in this article are drawn from the CBO's 2018 Long-Term Budget Outlook, available at: https://www.cbo.gov/system/files?file=2018-06/53919-2018ltbo.pdf.
2. Our video "How to Weather the Coming Financial Storms" permanently hosted at: https://lara-murphy.com/video0916/.
3. Nominal and real yields on Treasury securities available at: https://www.treasury.gov/resource-center/data-chart-center/interest-rates/.
4. CBO report, page 5.
5. CBO report, pages 7-8.
6. For historical U.S. government budget data, see: https://www.whitehouse.gov/omb/historical-tables/.

LENDER OF LAST RESORT



L. CARLOS LARA

Former Dallas Federal Reserve President, Richard Fisher, publicly dressed down President Trump in a recent interview with CNBC in response to Trump's remark that he's *"not thrilled"* about the Fed's interest rate hikes. Obviously, Trump's comment upset Fisher quite a bit and he told CNBC that by making that comment *"Trump is out of line."* [1]

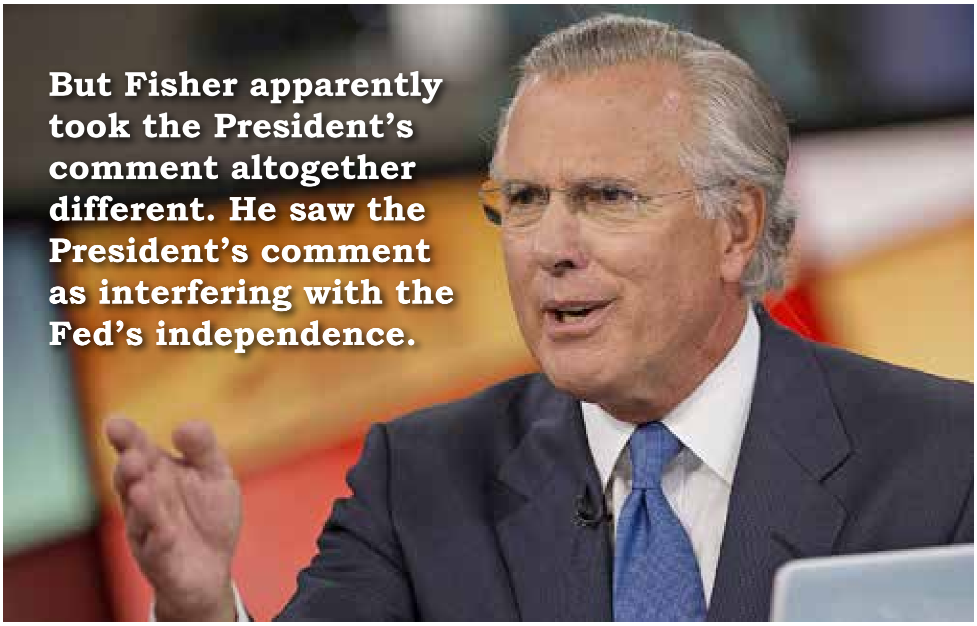
The Federal Reserve has raised interest rates twice this year and anticipates hiking rates three times in all in 2018. They are tightening and contracting credit. This will be a total of six-interest rate hikes since the 2008 financial crisis. President Trump, like many people who delight in having low interest rates, had merely expressed his dislike of these recent increases. He thought these rate hikes were coming at the wrong time and were hampering his hard work at piecing together the broken U.S. economy. Nevertheless, he did also state in the interview that he had full confidence in Jerome Powell, the man he had picked to run the Federal Reserve.

But Fisher apparently took the President's comment altogether different. He saw the President's comment as interfering with the Fed's independence. Without mincing words, CNBC reported Fisher saying:

> *"One of the hallmarks of our great American economy is preserving the independence of the Federal Reserve. No president should interfere with the workings of the Fed. Were I Chairman Powell, I would ignore the president and do my job and I am confident he will do just that."* [2]

Amazing—*what arrogance!* Yet this sampling of absurd comments gives us a slice of the type of news quibble the public gets day in and day out. It's no wonder naïve individuals remain ignorant of the real world mechanics of our flawed current monetary policy and stay confused. The late Austrian economist Murray Rothbard was right when he said,

> *"The Federal Reserve, virtually in total control of the nation's vital monetary system, is accountable to nobody—and this*



strange situation, if acknowledged at all, is invariably trumpeted as a virtue."[3]

From *The Case Against The Fed,* 1994

Fisher's remarks in this CNBC interview are a classic case in point.

The Fed—The Commercial Banker's Bank

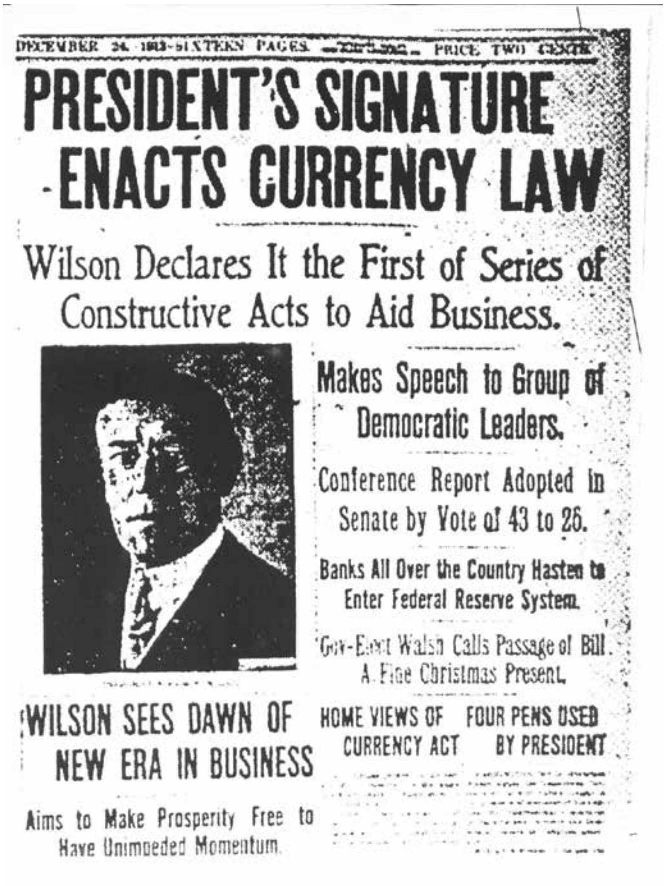
The real issue here really is the frightening self-governance of the Federal Reserve. But along with this fact is that the interest rate that everyone is all worried about is not a natural market rate of interest. The Federal Reserve is the perpetuator of these interest rate movements. These manipulations are what cause the booms and the destructive busts that have occurred in our economy for decades. If we all just knew and understood this important fact common sense would tell us that a so-called federal agency like the Fed should not have the absolute authority to do this sort of thing. Yet this is exactly what they do and with full permission from the government—but for what purpose?

Unfortunately, the average modern American is not able to grasp either the significance of this money manipulation or the significance of this dictatorship-type control over the nation's purse strings. I know this state of ignorance exists because that was exactly my intellectual condition at one time, before Austrian economics came into my life.

The interest rate that everyone is all worried about is not a natural market rate of interest.

It is this widespread ignorance on the part of the American public that helps explain how over the course of one hundred years the Fed has been able to position itself with the image of the financial savior of the economy. This has been accomplished through a steady diet of cleverly designed propaganda leading right up to that secret meeting at Jekyll Island, off the coast of Georgia, between the seven wealthiest men in America. The men that framed the Federal Reserve were Wall Street titans, bankers, and politicians. Even in a nation that prides itself in a government of checks and balances, something obviously went terribly awry back in 1913 during the establishment of this institution that regulates itself.

In order to reverse this illiterate condition the veil that conceals the mystery of the Fed must be pierced by exposing the public to the truth. You can discover this truth all on



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Aims to Make Prosperity Free to Have Unimpeded Momentum.

HOME VIEWS OF CURRENCY ACT

FOUR PENS USED BY PRESIDENT

Even in a nation that prides itself in a government of checks and balances, something obviously went terribly awry back in 1913 during the establishment of this institution that regulates itself.

your own if you will take it upon yourself to do serious research from credible sources. If you are new to the ***LMR*** or perhaps new to this subject matter let me admonish you to read the book that Bob and I wrote, *How Privatized Banking **Really** Works*, https://infinitebanking.org/product/how-privatized-banking-really-works/

There you will discover that contrary to what people say and believe the Federal Reserve exists solely to protect and create profits for its owners, the commercial banks, and no one else.

While today's Federal Reserve masquerades itself before the public as a fully transparent government entity that specializes in combating the ravages of price inflation and providing jobs for American unemployed workers, their official mandated autonomy amounts to nothing more than a privileged form of fraud—one of the greatest swindles of all time. In short, the Federal Reserve is the commercial banker's bank.

The government, who is always in need of money, is all but dependent on the Federal Reserve to provide that money when it needs it, especially when tax revenues fall short of meeting its annual expenditures. Since this is almost always the case, taxing the people is never the best solution because it is not politically popular. Consequently the indirect tax of inflation presents itself as the only viable alternative.

> *"One and only one aspect of the common legend that is indeed correct: that the overwhelmingly dominant cause of the virus of chronic price inflation is inflation, or expansion, of the supply of money."* [4]
>
> — *Murray Rothbard*

Ludwig von Mises, one of the champions of the Austrians, pointed out in his new edition of *Theory of Money and Credit,* which contains a newer section written in 1952, that the original reason the U.S. Government mandated the existence of the Federal Reserve in the first place has long since evaporated. The antiquated claims of John Maynard Keynes were extremely seductive as the ultimate fix for the economy, but were built on faulty assumptions that would eventually lead to long-term economic problems. This is exactly what we have today and the problems are more severe than ever.

> *"The tragic error of nineteenth-century bank doctrine was the belief that lowering the rate of interest below the height it would have on an unhampered market is a blessing for a nation and that credit expansion is the right means for the attainment of this end. Thus arose the characteristic duplicity of bank policy. The central bank or banks must not lend to the government, but should be free, within certain limits, to expand credit to business. The idea was that in this way one could make the central banking function independent of the government.*
>
> *Whatever the merits or demerits of this point of view may have been in older days, it is obvious that it is no longer of any consequence. The main inflationary motive of our day is the so-called full-employment policy, not the treasury's incapacity to fill its empty vaults from sources other than bank loans."* [5]

After each calamitous bust there is always major unemployment and a new opportunity for the Federal Reserve to work its magic. By simply reflecting on what has occurred in the years after the 2008 financial crisis

right up to today in 2018, the Federal Reserve, operating with impunity and its own agenda, is wholly responsible for the greatest transfer of wealth and income to the Wall Street commercial bank nexus in U.S. history. It alone is responsible for having blown up, once again, the biggest asset bubble ever in the history of the United States that will eventually explode causing more economic harm than what we have ever experienced in our lifetime.

Just about every aspect of the world and its people comes to us in mega doses daily.

Getting to the Truth

The great difficulty of making the public aware of the true condition of our country has grown exponentially in just the last three years. It's as though no one is really interested in knowing the truth. Suddenly, almost overnight, we have been plunged into a new age of undisguised and shameless lies. Much of it is pouring directly out of Washington, D.C. Not that this is anything new for virtually every human institution on the face of the earth has spread falsehoods with intent to cover up, distort, or erase the truth since time immemorial. But here, more recently, we have a new form of deliberate misinformation. Defined narrowly as "fake news,"[6] this type of information is being disseminated by traditional print and broadcast news media and especially by online social media, which is fraudulent content.

Due to the rise of the Internet in recent decades with its various apparatuses and the shift to 24/7 news broadcasting, just about every aspect of the world and its people comes to us in mega doses daily. Competition for the public's attention has had the effect of increasing the use of tabloid-type headlines with only half truths or no truths at all in order to gain market share. The sole measure for its dissemination is being determined by whether it is "clickworthy" or not. Money and power, of course, are behind much of its growth, but using this new form of journalism for political reasons has escalated and reached new heights since the 2016 Presidential elections.

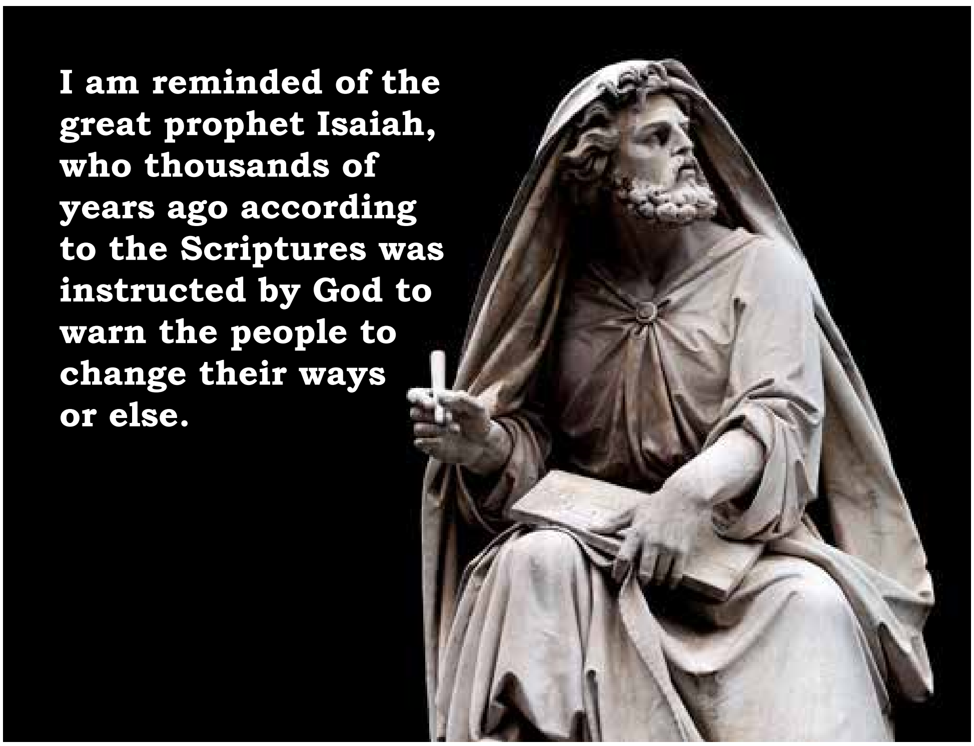
In March of 2017 producers of the 60 Minutes news program set out to investigate this phenomenon and discovered during interviews with fake news fabricators that disseminating lies was like an addiction. The program's anchor in talking about his interview guest said, *"The more hits he got, the more of a rush it was."*[7]

To put this in context we are talking about individuals who rack up 6-8 million page views on their websites and 83 million Twitter users in a single month with all of the information being disseminated, by most measures, deliberately, and by any definition, completely fabricated. Even more surprising to the 60 Minutes producers was the fact that these individuals believe everything they say and print. *"One of the issues with this story, with this topic, is that there is a basic fundamental disagreement right now in the country about what is false information," 60 Minutes reported. "And that is a place where really we haven't gone before."* [8]

A recent New York Times article reached a very similar conclusion. *"Fake news, and the proliferation of raw opinion that passes for news, is creating confusion, punching holes in what is true, causing a sort of fun house effect that leaves the reader doubting everything, including real news."* [9]

Where they see the real danger is that it has pushed up the political temperature and increased polarization of the nation. Since any one can pick up and use this journalistic weapon, fake news has become a political battering ram between the liberals and conservatives *"with the left accusing the right of trafficking in disinformation, and the right accusing the left of tarring conservatives as a way to try to censor websites. In the process, the definition of fake news has blurred."* [10]

What can we say about a nation that has lost its way and reached this point of unreality? I am reminded of the great prophet *Isaiah,* who thousands of years ago according to the Scriptures was instructed by God to warn the people to change their ways or else. For those of us who still use this ancient document as a measure for what is real and what is not, one can't fail to miss the sobering tone.



"Woe unto them that call evil good, and good evil: that put darkness for light; and light for darkness."

—Isaiah 5:20

U.S.A. FOREVER

While none of us would wish harm to come to the nation we live in there are a few of us that can't fail to see the writing on the wall and are rightfully concerned if America does not change its ways. While here at the ***LMR*** we are certainly not an authority on all facets of human life, we feel confident in our knowledge of financial markets and monetary policy and much of what we see in our economic world from our vantage point are alarm bells going off everywhere.

We are a very proud nation. When the powerful jet fighters fly over our great spectator sports we are in a real sense pounding our chest to the world that we have the mightiest military on the planet. Now the "USA FOREVER" slogan appearing on the new U.S. postage stamp brags of our nation's invincibility to everyone who receives a letter.

But all this too should remind us of another ancient document written by the great philosopher-theologian; Augustine of Hippo entitled, *The City of God*.[11] Written during the actual fall of Rome in 410 A.D. Augustine documents how the people were in absolute shock over their beloved, all-powerful, indestructible Rome, as it crashed and burned all around them.

In its very extensive introduction in my personal copy of this book, the author details out some of the obvious distortions that occurred as Rome went from a Republic to an Empire. One of these was the increase of b*ureaucracy* that was intent on underpinning personal imperial power with titles and insignias to display their importance and like the Emperor they surrounded themselves in mystery. If you wanted an audience with these bureaucrats you had to pass, literally, through a series of veils.

Conclusion

The source of inflationism can be politically varied, but certainly the mechanical instrument for setting it in motion rests solely with the Federal Reserve, the institution that controls the nation's money. Recognizing this fact, as a starting point, is immensely important in stopping inflation all together.

Viewed from an Austrian School perspective, inflation by all accounts, is a self-defeating monetary policy. It produces more evils than the evils it is attempting to cure. Hence continued use of inflation must invariably lead to an economic collapse and even worse.

Making the public aware of every aspect of this dilemma is critically important, but has become increasingly more difficult to do in an age where right and wrong has become relative. This, of course, points to a moral degeneration in society where a lie is now spoken as though it was the truth.

To escape this present environment and learn what you can do for your own household and business, Nelson Nash David Stearns, Bob and I have created several resources of education that are sure to assist you. In addition to the ***LMR***, pick up a copy of our newest book, *The Case for IBC,* at www.thecaseforibc.com Listen to our podcasts, *The Lara-Murphy Show,* at www.Lara-Murphy.com. If you are a financial professional look into our IBC Practitioner Program at https://infinitebanking.org/practitioners-program/ Visit our websites often. We have a plan that will get us through the financial stranglehold regardless of our present circumstances and will allow us all to teach others the way to financial freedom.

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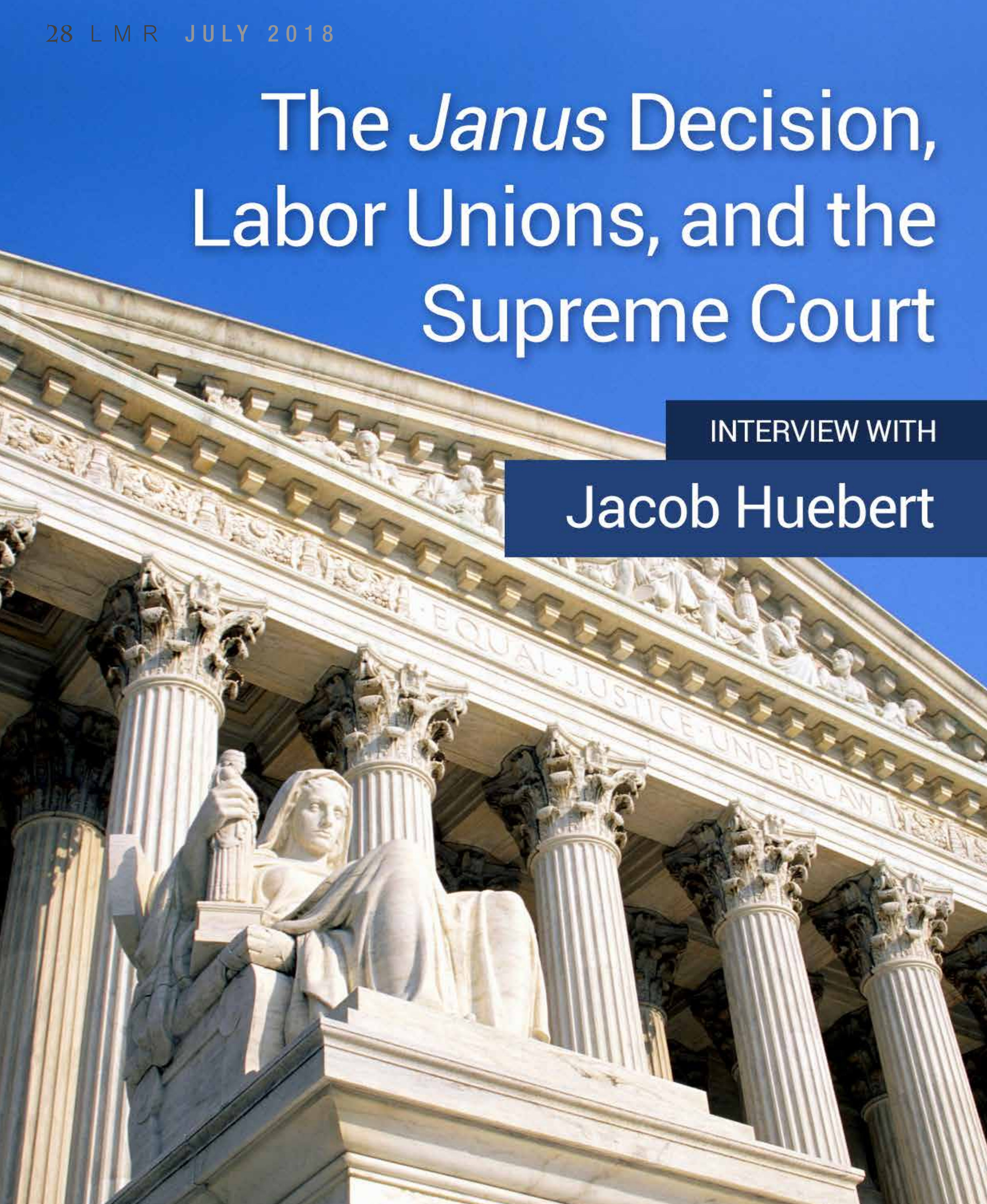
The *Janus* Decision, Labor Unions, and the Supreme Court

INTERVIEW WITH

Jacob Huebert



Jacob Huebert is Director of Litigation at the Liberty Justice Center, a free-market public-interest law firm in Chicago, where he litigates cases to protect economic liberty, free speech, and other constitutional rights. He is one of the attorneys who represented plaintiff Mark Janus in the recent Supreme Court case Janus v. AFSCME. He received his B.A. in economics from Grove City College and his J.D. from the University of Chicago Law School. After law school, Huebert clerked for a judge of the United States Court of Appeals for the Sixth Circuit. He is the author of a book, Libertarianism Today, and his writing has been published widely in scholarly, professional, and popular publications, including the Chicago Tribune and Wall Street Journal.

Editors' Note: Jacob Huebert was first interviewed by the LMR in June 2017. His first answer below has been reproduced from that initial interview; the remaining answers are new to the present issue.

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

Jacob Huebert: I became interested in libertarianism and free-market economics in high school, when someone introduced me to The Freeman magazine published by the Foundation for Economic Education (FEE). That, in turn, led me to attend Grove City College, where FEE's former president, Hans Senholz, had taught economics from an Austrian perspective for decades. One of my economics professors there was Jeffrey Herbener, who assigns works by Ludwig von Mises, Murray Rothbard, and other Austrian economists for his classes. And he introduced me to the Mises Institute, where I learned more about Austrian economics at the annual Mises University and through more reading. I was interested in economics in general, and Austrian economics in particular, because I wanted to understand how the world works, and because it showed how the libertarian policies I favored for moral reasons would lead to greater prosperity.

LMR: You are in the news because of your role in the recent 5-4 Supreme Court ruling that has been hailed by conservatives as a major blow against labor unions. Can you first summarize the "big picture" for our readers who may not be aware of the case and ruling?

JH: The case, *Janus v. AFSCME,* was about whether governments can require their employees to pay union fees as a condition of their employment. We argued that this practice violates the employees' First Amendment rights to free speech and freedom of association, and the Supreme Court agreed. It's a "major" decision in part because it affects a lot of people: until now, about five million government employees in the 22 states with mandatory public-sector union fees were forced to give part of every paycheck to a union whether they wanted to or not. Now all those people have a choice.

"The case, *Janus v. AFSCME,* was about whether governments can require their employees to pay union fees as a condition of their employment. We argued that this practice violates the employees' First Amendment rights to free speech and freedom of association, and the Supreme Court agreed."

To rule in our favor, the Court had to overturn a 1977 decision called *Abood v. Detroit Board of Education.* In that case, the Court said that governments couldn't force their employees to pay for certain union political activities—campaign contributions and other electioneering-type activities—but *could* make employees pay for their proportional share of the union's cost of bargaining on workers' behalf. The Court thought that struck an appropriate balance between respecting workers' First Amendment right not to pay for political speech they don't support, and preventing workers from "free riding" off unions' bargaining, receiving the (supposed) benefits without paying.

But there were problems with the *Abood* decision. One problem was that it didn't actually protect workers from paying for unions' political speech. One reason why is because *everything* a public-sector union does is political. When a union bargains with the government, it tells the government things like how much it should spend on salaries, what kind of pension benefits it should provide, and how it should run its programs. That's political speech: when anyone else talks to the government about those things, we call it lobbying. And it can be highly consequential political speech because unions typically advocate for increased government spending that everyone else has to pay for.

Another problem with the *Abood* decision is that preventing "free riding" can't justify violating people's First Amendment rights. As Justice Alito put it in the Court's opinion: "Many private groups speak out with the objective of obtaining government action that will have the effect of benefiting nonmembers. May all those who are thought to benefit from such efforts be compelled to subsidize this speech?" The obvious answer to Alito's rhetorical question is: of course not. And, besides, it's not really free riding if some workers, such as our client Mark Janus,

> "But hurting unions wasn't the point of the case; the point of the case was that government shouldn't use government benefits, such as government jobs, to get people to surrender their constitutional rights."

don't want the union's representation and don't consider it a benefit. As Alito put it, Mark was "not a free rider on a bus headed for a destination that he wishe[d] to reach but [was] more like a person shanghaied for an unwanted voyage."

People call this decision a "major blow" to unions, as you put it, because public-sector unions' revenue is likely to drop—perhaps by a lot—now that they can't force people to give them money. And the unions lament that this will diminish their political influence. (They now openly lament that the decision will hurt their ability to advocate for progressive causes even though, before the decision, they insisted that non-members' money was mostly just paying for stuff related to mundane, non-political workplace matters!) But hurting unions wasn't the point of the case; the point of the case was that government shouldn't use government benefits, such as government jobs, to get people to surrender their constitutional rights.

LMR: Now that you've summarized the case, can you explain your own role? At what point did you realize how big this was going to become?

JH: I was one of the attorneys who represented the plaintiff, Mark Janus, together with others at the Liberty Justice Center and the National Right to Work Legal Defense Foundation.

"We asked the district court to rule against us right away—after all, we had to lose at that level because of the binding Abood precedent. Then we went to the U.S. Court of Appeals for the Seventh Circuit and again admitted that we had to lose because only the Supreme Court could give us what we were seeking."

Over the past decade, the Supreme Court's conservative justices signaled a couple of times that they might be interested in overturning *Abood* if a case squarely presented the issue and gave them the opportunity. So we brought the Janus case in early 2015, hoping to give the Court that opportunity. But for a while it looked like the Court would overrule *Abood* without us. Shortly after we filed our case, the Supreme Court took a case presenting the same issue called *Friedrichs v. California Teachers Association.* When the Supreme Court announced that it would hear *Friedrichs,* the federal district court in Chi-

cago put our case on hold on the assumption that Friedrichs would dispose of the issue. But shortly after the Court heard arguments in Friedrichs, Justice Scalia died, and the case ended in a 4-4 tie vote, which kept the status quo in place.

Then our case was unfrozen, and we asked the district court to rule against us right away—after all, we had to lose at that level because of the binding *Abood* precedent. Then we went to the U.S. Court of Appeals for the Seventh Circuit and again admitted that we had to lose because only the Supreme Court could give us what we were seeking. The Seventh Circuit then rightly ruled against us, in a decision by Judge Richard Posner, and we asked the Supreme Court to take the case—just as a new ninth justice, Neil Gorsuch, was taking the bench. That was fortunate timing. Without a ninth justice, the Court would have had no reason to accept the case. The Supreme Court announced

"There's nothing inherently unlibertarian about unions. If workers want to form a union to bargain more effectively with their employer, and the employer wants to deal with the union, that's fine."

that it would take the case in September 2017, so that's when we knew we were likely to make history. And of course it became real in a whole new way when I sat in the courtroom on June 27 and heard Justice Alito start delivering the Court's decision, and when Mark Janus and I walked down the Supreme Court steps toward the waiting media and a crowd of supporters chanting: "Thank you, Mark! Thank you, Mark!"

LMR: Could you share your general perspective on U.S. labor law, from a libertarian perspective? For example, the "closed shop" has been illegal since the Taft-Hartley Act of 1947. So is it really correct to argue—as some right-wingers do—that the federal government is in bed with labor unions? Is the situation actually more nuanced?

JH: There's nothing inherently unlibertarian about unions. If workers want to form a union to bargain more effectively with their employer, and the employer wants to deal with the union, that's fine.

The problem with federal labor law is that, if workers at a given business vote to unionize, the employer is forced to deal with the union whether it wants to or not. Also, collective bargaining agreements between unions and businesses often require workers to pay union fees as a condition of their employment even if

"I do think Gorsuch could end up being one of the best justices of my lifetime."

they aren't union members. (The *Janus* decision doesn't change this because it only applies to the public sector.) That would be okay from a libertarian perspective if the employer actually wanted to enter that kind of agreement with a union. But employers don't really freely enter these agreements because, again, federal law forces the employer to bargain with the union. Some states have tried to mit-

igate this unfairness by passing "Right to Work" laws, which prohibit employers from requiring their employees to support a union. From a libertarian perspective, that's not ideal because it bans a contractual arrangement that some employers might want to enter. But some libertarians think Right to Work laws are acceptable in light of the federal law that coerces employers into dealing with unions. From a libertarian perspective, I think the question whether Right to Work laws are an improvement over the default depends on whether you think that, in a free labor market, a lot of employers would want to make their employees support a union.

LMR: Finally, what are your thoughts on the President Trump's role in changing the members of the Supreme Court?

JH: I can only be happy about his swift appointment of Neil Gorsuch because it was essential to the Court taking our case! And I do think Gorsuch could end up being one of the best justices of my lifetime. He has a background in natural law; he wants to rein in the administrative state; and he seems to be more interested in vigorously enforcing constitutional rights, including Fourth Amendment rights, than some other conservative judges. I am concerned that Trump's current nominee, Brett Kavanaugh, will not be as protective of Fourth Amendment rights and will take an expansive view of presidential power. There were other judges on Trump's list of potential nominees I would have preferred, especially Fifth Circuit Judge Don Willett, who wrote an impressive opinion in favor of economic liberty when he was a member of the Texas Supreme Court. In general, though, Trump's judicial nominees at all levels have been outstanding relative to those of other modern presidents.

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Note: The economists and financial professionals interviewed in the LMR are given the freedom to express their views, without necessarily implying endorsement from the editors.

EVENTS & ENGAGEMENTS

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

JULY 15-21, 2018
AUBURN, AL

Murphy presents at Mises University

OCTOBER 13, 2018
FORT WORTH, TX

Murphy, Stearns and Lara present the IBC Seminar for the General Public. Stay tuned for registration information.

SOME EVENTS MAY BE CLOSED TO GENERAL PUBLIC.
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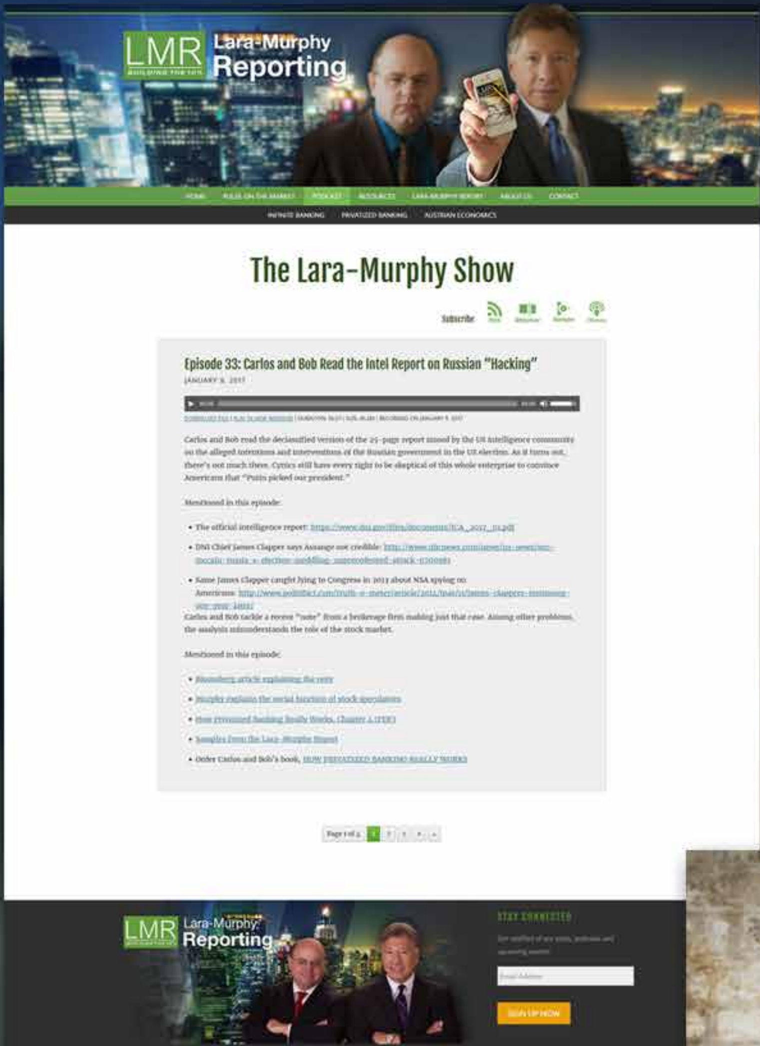

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