

AUGUST 2018

BANKNOTES

NELSON NASH MONTHLY NEWSLETTER

CONTINUING TO RUMINATE

by R. Nelson Nash

It is time to re-examine the origin of the word — *ruminate*. To do so we will have to understand “Cow Biology”: A cow has four stomachs. The rumen is the first — and by far — the largest compartment of the stomach of a ruminant from which food is regurgitated for rumination. She eats grass and chews on it in the first stage of digestion. She swallows it and it passes into the second stage of digestion in the rumen where it remains for a certain period.

Then she regurgitates a portion of it at a time which is called the “cud.” She “chews the cud” for a spell to get more nourishment from it and swallows it again before passing it on to the next stomach, etc.

So, we can use this example as a model for understanding *The Infinite Banking Concept*. IBC is all about how you think — and it is quite different from how most folks think. Very often it is difficult for most folks to understand IBC when first exposed to it because of the plethora of financial noise that prevails in our world.

Earlier in this series of articles I quoted Merriam-Webster’s definition on ruminating — to go over in the mind repeatedly and often casually or slowly. So, in our world it would be like the cow “chewing the cud” to get as much nutrition out of grass as possible — we have got to ruminate the Infinite Banking Concept in our minds to completely understand its’ power before adopting it in our lives.

There are many who think they understand IBC but in reality, it is just superficial knowledge. Furthermore, there are even those who really do understand it intellectually — but they don’t understand it emotionally. They might say, “I have had it demonstrated by others that IBC is a valid concept but it’s just another way to sell whole life insurance. If I adopt this idea in my own life, what will my friends think?” It is amazing the power of peer pressure. Why else would there be so many polls conducted that occupy so much of our time?

If you are one who is learning this concept you must relax and keep “chewing the cud.” There are many people who have read *Becoming Your Own Banker* over 30+ times who say, “I learned something new every time

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I read it.” Their copy of the book is dog-eared, underlined, or highlighted on nearly every page. It is almost falling apart from handling. That’s good because now they need to buy another copy!

If you are one who understands IBC and are introducing it to someone for the first time you must learn to be patient with that person. Realize the financial noise that this person has been subjected to for so many years is rather overwhelming.

So, with this refresher, let’s go back to where I left off in the last article. We examined “real money” as a token of services rendered, or goods provided. In contrast there is other money being used in our financial world that has nothing representing value of services rendered or goods provided. It’s money created out of thin air by the bankers. It is fiat money —and the volume of it in circulation is overwhelmingly greater than the volume of “real money.”

This has produced a very hostile financial environment in which we have to endure, and it leads to thoughts of despair in the lives of many people. I am trying to demonstrate that one can survive — and thrive — even in such an environment. But it will require a complete secession from the way we have been taught by the banking world. It will involve recognizing what is really happening.

In my last article we took an actual look at a subject that occupies the thoughts and conversations of so many people — the Income Tax. I revealed that last year my wife and I paid \$30,000.00 (“real money”) to a government bureau and we received \$40,283.00 (fiat money) from another government bureau. So, I have a question to you — did we really pay any income tax? By ruminating on this question, it looks to me like we really paid income taxes with fiat money from Social Security — not “real money” as conventional thought would conclude.

Further explanation of what really happened is that we received \$3,356.92 of fiat money per month from Social Security — a government bureau — and every quarter of the year we sent \$7,500.00 of it back to a different government bureau. \$40,283.00

fiat money income and \$30,000.00 fiat money paid back to them means we received a surplus of \$10,283 of fiat money.

To avoid throwing too many numerical facts at you, I deliberately deferred telling you last time that I also received \$13,284.00 in retirement income from my 28 years of flying airplanes for the National Guard. You can bet your life that it was fiat money!

So, \$13,284.00 plus \$10,283.00 surplus fiat money from SS amounts to \$23,567.00 of fiat money income to us. What did we do with that?

All of my cash is stored in the 43 policies Mary and I own but have since given away to members of my family. Even so, our Form 1040 tax return last year showed we had a total income of \$169,701.00. In planning our financial future 66 years ago my wife and I made a commitment two or three months before our marriage that we would always tithe 10% of our income to our church. That means \$16,970.00 went there.

\$23,567.00 fiat money income less \$16,970.00 left us \$6,597.00 surplus to give to other worthwhile causes such as the Mises Institute and The Foundation for Economic Education plus some other educational organizations.

Hopefully you can see that we live very well on “real money” income from services provided to others under free contract with them. These people paid us with “real money” they earned from providing goods and/or services they had provided to others.

While doing this pondering and ruminating I discovered that I have never paid income tax in my lifetime. I don’t remember paying any income tax during my two years of Air Force duty during 1952 to 1954. Maybe it is because the amount must have been so small that it doesn’t register in my memory.

In 1956 I became an aviator with the Army National Guard. The money I earned from part time activity of flying airplanes was most definitely fiat money paid from the government. This fiat money greatly exceeded any income tax that I paid down through the years. Someone might say, “Yes, but you had to

spend a portion of your valuable time in flying those airplanes.”

My response would be, “And you spent a portion of your valuable time playing golf. You also spent lots of money for country club dues, travel to tournaments, buying new equipment every time a manufacturer comes up with a new type of golf club. And you probably have a personal golf cart! Yes, that is your hobby and you need a diversion from your work day activity.”

During my lifetime I have played a few rounds of golf, too. But flying airplanes has been my hobby for most of my life. Flying airplanes is much more fun. Furthermore, I was able to fly some airplanes with the NG that I could not afford to fly as a civilian. The Beechcraft Baron was a real joy! And if I tried to tell you about the Helio Courier you would not know what I was describing.

Yes, my situation was unique. But, so is yours. We are all different. But, if you are endowed with the spirit of an entrepreneur and can learn to ponder and ruminate on the power of The Infinite Banking Concept then you can find ways to survive — and thrive — in this hostile financial world.

If you know what is really happening, then you will know what to do. It's all about how you think!

Is Life Insurance a Good Investment Right Now? Part 1 of 2

by Robert P. Murphy

[Reprinted from the May 2017 edition of the *Lara-Murphy-Report*, LMR]

My business partner and coauthor Carlos Lara and I have been warning since the financial crisis of 2008 that the Federal Reserve's response has merely set us up for another crash. In September 2016 we released a video entitled, “How to Weather the Coming Financial Storms” which outlined our prognosis, and gave strategies for business owners and households to protect themselves. (You can still view the video from our main landing page at: <http://laramurphy.com>, or you can search that title on YouTube.) In this video, we recommended that Americans: (1) Acquire at least a month's worth of currency, (2) acquire 6 - 18 months' worth of gold (or silver), and (3) start funding a dividend-paying Whole Life insurance policy configured according to Nelson Nash's Infinite Banking Concept (IBC).

In this context, readers of the LMR and/or listeners to our podcast (“The Lara-Murphy Show”) often ask: How does it make sense to load up on life insurance, if the Fed is setting us up for an economic crisis, possibly coupled with a fall or even crash of the currency? Doesn't elementary analysis say that if you expect the US dollar to fall, you don't want to be in dollar-denominated assets like life insurance?

Over the course of two issues, I will answer this excellent question. In this first article, I will outline the theoretical considerations. In other words, I want to properly frame the reader's thinking, because many people misunderstand what Carlos and I are saying, and we need to adjust their thinking to properly weigh the issues. In the second article (which will run in the June 2017 LMR), I'll review the latest statistics on the assets of life insurers, to assess their relative health compared to other financial institutions.

Clarifying the Lara-Murphy Recommendation

In the first place, it's crucial to emphasize that Carlos and I are not merely saying, “You should get yourself a Nelson Nash-type policy.” In general that would be good advice, applicable in any time period and for any economic landscape.

Clarifying the Lara-Murphy Recommendation

However, given the current realities—and in particular, the years of malinvestments fostered by artificially low interest rates, coupled with an explosion of federal government debt and a massive expansion of the Fed's balance sheet—Carlos and I are supplementing that timeless advice with the two additional recommendations of: (A) Acquire at least a month's worth of actual currency in case the banks suddenly close, and (B) Build up a stockpile of physical gold (or silver) in your possession in case the currency tanks.

So I ask that people keep the entire three pronged strategy in mind. We are encouraging our readers and listeners to play defense, to make sure they don't get wiped out by a sudden catastrophe. It's not so much that we are saying, "This is likely the best thing for you to do," but rather, "If you do this, you will probably avoid disaster."

IBC Is NOT About "Investing in Life Insurance"

The second clarification is to reiterate that Nelson Nash is not telling his fans to invest in life insurance, the way a financial guru might advise people to invest in real estate, Asian stocks, Bitcoin, or some other asset class.

Rather, Nash is showing people how to "become your own banker" through the use of properly designed dividend-paying Whole Life insurance policies. Think of them as a cash-management vehicle. Consider an analogy in more conventional terms: Business owners have business checking accounts. This would be indispensable to modern affairs. Yet the owners are not "investing in a checking account." It just makes running the business so much easier than if they refrained from banking services.

Likewise, Nelson Nash discovered that given our current financial landscape and tax/regulatory environment, a dividend paying Whole Life insurance policy is the perfect platform on which to implement the process of IBC.

Our Strategy Is NOT a Complete Plan

Let me issue another clarification: Carlos and I are not telling people to merely follow our three-pronged recommendation. Rather, we are saying that it is an excellent defensive measure to provide a minimum level of protection against the coming financial storms.

You should certainly be doing much more to get ready. We strongly recommend starting up multiple streams of income. In general, saving more is also a great idea.

But as far as what to do with your extra income and saving, we are going to remain agnostic. There

are many idiosyncrasies with individuals and businesses. It can't possibly be right to say, "You should build and run middle-income apartments," because some people (such as me!) would be terrible landlords.

The beauty of IBC is that it gives flexibility to individuals. When they see a particular investment opportunity, they can take out a policy loan and pounce. In contrast, if they had dumped all of their spare income into a 401(k) or other tax-qualified plan, their money would be in prison and they'd have to watch that opportunity drift by...

HOW Inflation Can Hurt Life Insurance

Our concerned readers are right: Other things equal, life insurance is a "bad investment" if you're expecting large-scale price inflation. But it's important to think through exactly why there is a problem.

Some people ask us, "Won't the life insurance companies fail if the dollar crashes?" Well, given a bad enough calamity, every financial institution could go under. After all, we could have a Mad Max environment if things got really hairy.

However, in terms of merely economic crises (as opposed to civil war, foreign invasion, massive flu outbreak, etc.), a crashing dollar wouldn't directly strike life insurance as an asset per se. Ironically, it could arguably make the life insurers stronger, as it might become much easier for people to make their premium payments.

Consider: If prices in general go up by, say, 100 percent over a five-year period, then wages and salaries would go up too, perhaps after a lag. Perhaps at the end of the five years, the average person's salary has gone up 90 percent.

So yes, this person is feeling the crunch from price inflation; his paycheck has gone but gasoline, groceries, and other goods are now twice as expensive.

However, one of the things that won't go up is the dollar amount he has to pay the life insurance

company to keep his policy in force. If he had opened up and signed a contract for a Whole Life policy with a level premium of (say) \$800 per month before the massive inflation hit, then he would still only need to write checks for \$800 per month. And now it would be easier to do that, because his salary was 90 percent higher.

Admittedly, if the mismatch between general price inflation and the (lagged) jump in wages and salaries were too large, then perhaps households would be so far behind the 8-Ball that they had to drop their life policies, even though the policies were becoming “cheaper” by the year to keep in force. But here again, the issue wouldn't be the price inflation per se, but rather the lag in wages and salaries to catch up. Higher price inflation per se makes it easier for policyholders to make their premium payments on already issued policies.

Rather than worrying about the life insurance companies going under, the true danger of large-scale price inflation is that the “real” value of your Cash Surrender Value (and hence the amount you can borrow against your policy) would go down sharply. For example, if you have taken out a policy that promises to have at least \$600,000 available in the year 2030, but between now and then large-scale price inflation occurs, then the life insurance company will still probably be able to deliver on its promise to have \$600,000 available for you in 2030. The problem is that \$600,000 at that time might not buy as much as you currently predict.

In this context, the reader can appreciate why Carlos and I included the hedge with gold (or silver) in our three-pronged strategy. In the event of a large-scale price inflation, the precious metals component of your overall portfolio will rise to help offset the loss in purchasing power of your dollar-denominated assets.

On the other hand, we don't merely recommend bulking up on “inflation hedges.” Absent the abandonment of the currency, Americans will still be using dollars for their everyday transactions in the coming decades. That's why it's still a great

idea to get a cashflow management system—in other words, a Nelson Nash-type policy—up and running.

How Rising Interest Rates Affect Life Insurer Balance Sheets

Sophisticated readers sometimes ask, “If interest rates rise sharply—as you and Carlos warn that they might—then won't this destroy the life insurers? After all, they hold a bunch of bonds on their balance sheets, and rising interest rates reduce the market value of bonds. So won't the major life insurers go bankrupt if interest rates spike?”

This is a great question, and it's a legitimate worry for some types of institutions that invest in bonds. Indeed, we have warned that the Federal Reserve itself could become technically insolvent if Treasury yields rise quickly.

However, with life insurers we must also consider the liability side of their balance sheets. These consist of the present value of the actuarially expected death benefit payments they will make on their outstanding policies.

Now the crucial point here is that the death benefit claims are themselves “fixed income” by their nature; the life insurance contracts promise a certain dollar amount. Because of that, when interest rates rise, the present value of those looming future liabilities goes down.

Therefore, so long as the life insurers have engaged in a reasonable degree of maturity matching, movements in interest rates do not have a first-order effect on their solvency. Yes, a spike in the 10-year Treasury yield will cause the market value of the life insurers' bond assets to drop, but at the same time it will cause the market value of their death benefit liabilities to drop by a similar amount.

To make sure the reader understands this crucial point, consider a simplified scenario: Suppose a life insurance company knows that Joe Smith is going to die in exactly 10 years, at which time the insurer will have to pay Smith's beneficiary \$1 million. Further suppose that the yield on a zero-

coupon ("STRIPS") 10-year Treasury bond is 2 percent. So in order to ensure that it has the ability to pay Smith's beneficiary, the insurance company right now spends about \$820,000 on zero-coupon 10-year Treasuries, because the U.S. federal government will then have to redeem them for \$1 million in 10 years.

Now a year after making this purchase, suppose that the yield curve on all Treasuries shifts up by 4 percentage points. This will affect the market value of the bonds and the liability. But if the life insurer just forgets market value and looks at the ultimate redemption value of the bond itself, it will still have just enough coming in the door to pay Joe Smith's beneficiary the required \$1 million upon his death. In other words, the U.S. Treasury owes the life insurance company \$1 million when the bonds mature, regardless of what happens to interest rates in the meantime. The fact that the market's valuation of this approaching cash payment fluctuates over time can be ignored so long as the life insurer has enough cash to finance its operations otherwise.

In next month's issue, we'll look more carefully at actual statistics of life insurers to see how well (or poorly) they live up to this ideal of perfect maturity matching. But I wanted to set out the theory first, to make sure the reader understands the real issue at stake.

Banks and Policy Loans

Finally, an excellent objection runs like this: "You and Carlos are warning that the commercial banks could collapse. In that scenario, how am I supposed to access my policy loans?"

Here it's important to consider that the life insurance companies themselves, though they of course have checking accounts like other businesses, don't keep a large portion of their wealth in the form of commercial bank deposits. (They wouldn't earn much interest on such an asset.)

So if the commercial banks experience a crisis, the assets "backing up" your life insurance policy won't be caught up in the problem, at least not directly.

Now then, when you request a policy loan, the only requirement is that some commercial bank is still open for business. You can open an account with them, and have the life insurer deposit your policy loan in that account.

Notice that this is entirely different from you keeping a large portion of cash inside a particular checking account—as many gurus are currently recommending. In the event of a big crash where FDIC goes under, and the government has to declare a "bank holiday," you could find that the (say) \$30,000 in your particular checking account is inaccessible, until the government moves things around or possibly forever, depending on how big a "bail-in" is needed.

But to repeat, if instead of keeping your "cash" inside a commercial bank, you keep it "inside" a properly structured Whole Life policy, then you are much more likely to be able to access it in the event of another financial crisis.

Conclusion

In this article I explained the three pronged strategy that Carlos and I recommended in our video, "How to Weather the Coming Financial Storms." If you haven't yet watched it, I strongly encourage you to find it at: <http://lara-murphy.com>.

Furthermore, I addressed several common objections to our approach. People understandably think life insurance is a "bad investment" if one worries that the economy might crash and the dollar plummet. However, in the context of IBC and our other defensive recommendations, we saw that these fears are misplaced.

The Fact You Can Vote Doesn't Make Government Abuse OK

by Ryan McMaken

One of the most problematic aspects of the American Revolution — problematic for the state — is the fact that the American war for independence was illegal. According to British law, the secession movement

announced at Philadelphia in 1776, and the war fought to defend it, were criminal acts instigated by criminals.

Moreover, the formal act of secession from the British empire, was just one act in what was becoming a well-established habit of resistance to, and disregard for, British law. By the time of the revolution, smuggling and tax evasion in general had become integral parts of the colonial economy and mindset.

Disregarding British Law: A Favorite Pastime of Americans

This went back at least to 1733 when the British state imposed the Molasses Act which slapped a tax on molasses imported from French colonies. This was very costly for New Englanders who not only produced a lot of rum, but also drank a lot of it. Resistance to the tax — and to later taxes — became so widespread that John Adams later remarked that “molasses was an essential ingredient in American independence.”

In his introduction to William McClellan's *Smuggling in the American Colonies at the Outbreak of the Revolution*, David Taggart Clark writes:

the restrictions on imports from the West Indies were systematically and persistently ignored, producing a condition of smuggling so universal and well-nigh respectable as to raise the question whether the operations of the merchants could properly be designated by that term.

This disregard for the laws persisted as the colonists found themselves as pawns in the political games of British politicians. British lawmakers limited colonial trade for the purposes of gaining advantage for London in geopolitics, or to assist domestic special interest groups. These trade limitations thus extended far beyond just the West Indies where the molasses trade was important.

The end result was, as McClellan concludes:

Moral scruples had no more weight with the colonists in connection with the general import

trade than they had in connection with the West Indies trade and we shall see that smuggling existed in the latter whenever the colonists found it to their advantage.

Flouting trade restriction may have been an important part of planting the seeds of the revolution, but the revolutionary spirit ultimately went far beyond just matters of taxes.

As Murray Rothbard has shown, the American Revolution carried on the ideas of the radicals of the English Civil War, and it served as a catalyst for many radical ideas. These included the abolition of slavery (at least in the North) and the end of state-sanctioned churches. It also brought the near-abolition of the hated standing armies, in favor of local militias as envisioned by the radicals of 17th-century England. And, of course, the Declaration of Independence explicitly established the moral right of political separation — i.e., secession — when governments become destructive to the rights of the people.

Needless to say, all of this was contrary to British law. It was abhorrent to the ideas of those who controlled the British state, and who would have likely hanged the American revolutionaries for treason — if they had had the opportunity.

Why Follow the Law Now?

But once we see that the United States was itself formed out of contempt for established — but unjust — laws, this presents a problem for those who seek to preserve the status quo.

Taggart Clark saw this problem in 1912, wondering:

But the study of colonial smuggling must at least raise a deeper, and perhaps a sadder, question, the question whether sensitive regard for the majesty of law still suffers amongst the American people from the injury wrought by the foolish legislative officiousness of an eighteenth-century English Parliament.

In other words: how do we get these Americans to respect the law even though their country was created by lawbreakers? The revolutionaries

supported secession, smuggling, tax evasion, and even taking up arms against the established government. This wouldn't necessarily be a problem for the state and its supporters were it not for the fact that many Americans continue to revere the revolutionaries and the idea of the American Revolution itself.

The challenge therefore, is to create the impression that the struggle of the revolutionaries has no relevance to today's political system.

This can be done in a variety of ways, but the one I wish to focus on here is the strategy of portraying the American revolutionaries as an irrelevant model because now we have "democracy."

"Revolution Is Wrong Because We Have Democracy Now"

The argument goes something like this: the American Revolution was justified way back in the old days because they didn't have democracy. We know this because they opposed "taxation without representation." Thus, those taxes, like the notorious tax on tea, were wrong. But none of that applies to America today because now we have democracy. All taxes are approved by "the people" through the ballot box. If you don't like the taxes, you still have to follow the law because democracy proves the laws are the will of the people. Secession, of course, is no longer acceptable because it's unnecessary. If there are any unjust laws, people can simply vote for better rulers. And then the problem will be solved. Breaking away and forming a new country, of course, is far too radical and un-patriotic.

And so on.

To say that this explanation of democracy is naive in the extreme would be an understatement. This argument fails not only in terms of how democracy actually works, but also ignores the true history of the Revolution.

For instance, "taxation without representation" was hardly the only grievance of the revolutionaries. In fact, in the Declaration's list of abuses justifying the colonial secession from the British Empire,

the statement "imposing Taxes on us without our Consent" is seventeenth on the list. One would think that if this were the primary cause of the rebellion, then it might appear somewhat sooner in the document. Instead, it comes after a long list of complaints about the appointment of judges, excessive military power, and the creation of "swarms" of regulatory bureaucrats, which the king "sent hither ... to harrass our people, and eat out their substance."

Moreover, the Declaration establishes that the proper end of government is to protect "rights" and that once a government becomes "destructive of these ends, it is the Right of the People to alter or to abolish it." The Declaration does not say the people have a right to alter or abolish an abusive government "except in cases where there are regular elections." For Jefferson, an abusive government is an abusive government. Democracy doesn't make an abuse a non-abuse.

Nor does the Declaration establish that if the majority votes for something, then it's okay for the government to do it. If 51 percent of the population votes year after year to impose onerous regulations, high taxes, and officials hostile to the minority, shall we tell the minority "no resistance is permitted, because we have democracy"?

Such a claim would be absurd, and throughout history, democracy can be shown to lead to abuses far greater than any of those inflicted on the colonists by the British Crown.

Thus, the claim that resistance and rebellion have been rendered taboo by democracy is based largely on fantasy and wishful thinking.

And then, of course, there is the problem of political representation itself. As Gerard Casey has shown, the idea that elected "representatives" can faithfully represent the needs and views of the general public is highly suspect at best. To see this, we need look no further than the reality in America today.

For example, most members of Congress are millionaires, and on average, each member of

Congress has the wealth of *eighteen* American households. Members also spend most of their time in Washington, eating steak lunches with lobbyists and living a standard of living of which most Americans could only dream. Members of the Senate are even wealthier and more out of touch.

Each member of the House of Representatives also represents, on average, nearly 600,000 constituents, meaning the vote of each individual constituent is essentially meaningless to the elected official. To get face time with one of these “representatives” usually requires making a large “contribution” to the politician’s re-election campaign. What is the likelihood that your representative will share your worldview, your religion, your ethnic identity, and your economic interests? The probable answer is “zero.”

But for some, this model of political representation renders all political disobedience, secession, and rebellion irrelevant to today’s world. By this way of thinking, who needs rebellion? Your Millionaire-in-Congress will faithfully represent you! Unless, of course, the majority repeatedly elects representatives who are hostile to your way of life.

And finally, we might also note that countless American laws and regulations are made, not by any elected body, but by the vast, faceless unelected bureaucracy that functions out of reach of the voters. Each year, thousands upon thousands of new rules — many of which are enforced with sizable fines and jail time — are imposed on citizens who have no means of making the rule-makers accountable.

The Revolutionary Spirit Is Just as Relevant as Ever

The reality of the revolutionaries of old is far more relevant to our own times than many would like to admit. Millions of Americans are governed by a faraway and unresponsive elite. Taxes in the form of tariffs can be increased — and *are being* increased — by a president who can impose these new taxes with the stroke of a pen and without any vote in Congress. As in the time of the Revolution, locally-made laws are rendered null and void by distant government officials. Except now we call it “judicial

review.”

“But don’t question the lawfulness of the system,” we’re told. Don’t talk about secession, or nullification, or disobedience at all. It’s all “legitimate” now because we have democracy.

Unfortunately, many people believe it.

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Inflationary Double-Talk

by Henry Hazlitt

[*Newsweek* column from May 26, 1952, and reprinted in *Business Tides: The Newsweek Era of Henry Hazlitt*.]

At his press conference on May 8, Mr. Truman, asked whether the chief danger was inflation or deflation, replied that the country had to guard against both: and that was why it was necessary to have control powers — to prevent either one.

There is nothing new in this Scylla and Charybdis analogy. It runs like a refrain through the speeches of Leon Keyserling and the reports of the Council of Economic Advisers since that body was created. What is significant is Mr. Truman’s own espousal of the doctrine at this time. On top of the hasty removal of restrictions on the use of “strategic” metals, on state and local bond issues, on housing, on real-estate credit, and especially on general installment buying, on top of the violent denunciations by Administration spokesmen of every effort of Congress to economize at any point, this statement makes it unmistakably clear that what the Administration really fears and fights now is any lull in the inflation, any sag in the boom prior to election. In brief, it is prepared to throw all its “anti-inflation” policies into reverse.

It would of course serve Mr. Truman's political purposes ideally if he could get Congress to swallow this fighting-both-devils-at-once doctrine. He could then continue both to inflate and to "fight" his own inflation. He could step on the accelerator of credit expansion with his right foot while he stepped on the resulting price increases with his left — always saving the country in the nick of time. The politicians of Europe have made a very good thing of this. The result is known there as repressed inflation.

The principal methods by which governments inflate are: (1) huge governmental spending, particularly deficit spending; (2) monetizing the public debt; (3) pegging or forcing down interest rates; (4) ordering wage boosts; and (5) encouraging private credit expansion. The Truman caliphate has resorted to all these methods. The principal methods by which governments pretend to "fight" inflation are by price fixing and wage fixing, usually accompanied by allocations, rationing, and subsidies.

These two sets of powers give a government unanswerable weapons for punishing political opponents (by crushing taxation, price rollbacks, profit cuts, inadequate allocations, seizures) and for rewarding political supporters (by favorable allocations, price or profit increases, wage increases, and subsidies). Through its life-and-death powers over everyone's economic prospects, it has the power to keep everybody in line.

Politically attractive as such powers are to a ruling clique, they make no sense economically. They imply that a free economy cannot balance itself, but that the DiSalles and Arnalls and Feinsingers know just how to do it. They imply that inflation is some disaster that falls upon a country from the outside, like a flood or a plague of locusts. Inflation is in fact always and everywhere the creation of governmental policy. It is caused by the increase in the supply of money and credit. The way to halt it here is not to give the President "emergency" powers to halt it, but to *deprive* him of his present power to inflate. That the Administration knows how effective this deprivation would be is evident from its vehement objections whenever any proposal arises in Congress

to free the Federal Reserve System from Treasury dominance.

As for price control, it cannot be repeated too often that as a cure for inflation it is completely fraudulent. It not only diverts attention from the real cause and cure of inflation. It adds further evils of its own. It abridges human liberty, encourages waste, and disrupts production.

The course before Congress is clear. It should allow price-control and wage-control powers to lapse completely. It should deprive the Administration of its present power to inflate. And it should repeal the provisions in its labor laws which compel employers to bargain with industrywide labor monopolies and which give those monopolies the power to bring the nation's production to a halt.

Henry Hazlitt (1894-1993) was a well-known journalist who wrote on economic affairs for the *New York Times*, the *Wall Street Journal*, and *Newsweek*, among many other publications. He is perhaps best known as the author of the classic, *Economics in One Lesson* (1946).

PC and the Bureaucratization of the Economy

by William L. Anderson

The recent incident at a Philadelphia Starbucks in which police arrested two black men who were waiting for a friend to join them has stirred a lot of controversy and brought bad publicity to the coffee chain. Facing demonstrations accusing the company of racism, the Starbucks management even closed some of its stores for one day in May so that employees can undergo training to deal with racial biases.

Given the company's history of supporting progressive causes and politicians, and its outright forays into the nether regions of political correctness, one would think that the progressive establishment would cut the company a break, especially given that the manager of the Philadelphia store is known herself as being a "social justice

warrior.” Such things don’t matter to progressives, however, as one misstep from orthodoxy can trigger a cascade of Twitter mobs, “doxing” (activists quickly put the manager’s personal information online, subjecting her to death threats and forms of public shaming, not to mention her being removed from her job), and outright threats.

That American firms find themselves immersed in the intense political struggles no longer seems surprising. Google fired engineer James Darmore after he wrote a memo that questioned the company’s “diversity” policies, and Mozilla forced out CEO Brendan Eich because he had contributed money to an organization that opposed legalization of gay marriage. The *New Yorker* recently attacked the fast-food restaurant chain Chick-fil-A for even existing in New York City and for openly having Christian principles in the company’s organizational structure. Mayor Bill de Blasio demanded a boycott of the restaurant when it opened in New York; New Yorkers apparently failed to heed his demands and are buying a lot of chicken sandwiches, instead.

In the movie, “Dr. Zhivago,” the revolutionary Strelnikov tells Zhivago: “The personal life is dead in Russia; history has killed it.” The only thing left, of course, is the political life. I saw a recent flyer publicizing a women’s study program at a university declare: “Feminism is about connecting the personal with the political,” and wondered if the writer someday would be as enthusiastic about killing political opponents as was the fictional Strelnikov.

These are the undeniable recent political developments in the USA, but what do they mean for a market economy or, to be more specific, an economy that is based upon relatively free prices, property rights, and entrepreneurship? The answers to such questions is simple: As long as promoters of political correctness seek to use the state to coerce others to accept PC viewpoints, the growth of PC in the workplace will be economically harmful and impose unnecessary costs upon producers and consumers.

First, and most important, we are not dealing with

simple preferences. As pointed out, many people on the left refuse to patronize Chick-fil-A because the company’s leadership does not believe that gay marriage is compatible with Biblical principles. Furthermore, the company has contributed money to organizations that oppose gay marriage, which has enraged certain political factions, and especially some Democratic Party politicians.

The city government of Chicago, for example, in the past refused to permit Chick-fil-A to open a franchise in the Chicago city limits because of the company president’s stated beliefs. (The city has three locations today.) Chicago Mayor Rahm Emmanuel justified the action by claiming that the business did not conform to “our values”:

Chick-fil-A values are not Chicago values. They disrespect our fellow neighbors and residents. This would be a bad investment, since it would be empty.

Chicago Alderman Joe Moreno, who was behind the blocking of Chick-fil-A opening a store in his ward, added:

They (Chick-fil-A) should be in the business of selling chicken, not promoting a political philosophy. If they want to come out with an anti-discrimination policy, put it in their employee handbook, post it in their restaurants...then we can have a discussion.

These are curious remarks, given that Moreno and Emmanuel are demanding not only that Chick-fil-A have a political philosophy, but one that agrees with the worldview of the Chicago politicians and those political groups with which they are aligned. Furthermore, the demands that businesses promote certain political viewpoints – or not be permitted to exist – have far-reaching consequences and have only a social downside.

Second, we are seeing businesses spending millions of dollars for “diversity” programs and “diversity officers, ostensibly to create “a work culture where all employees can be productive, respected, and feel safe in their work environments.” However, as the Damore incident demonstrates, Google was not looking for a more-productive environment but

rather an environment of political conformity.

Given that “diversity officers” exist to promote a particular political philosophy, they are more accurately labeled “political officers,” and anyone familiar with the organizational structure of various Red Army factions in the former U.S.S.R. and other communist countries understands the actual role of the political officer. Those officers had one duty, and that was to enforce political conformity and to root out possible dissenters, and it does not stretch credulity to say that the gaggle of diversity officers burrowed into American businesses, colleges and universities do not have similar roles.

For every James Damore, there are many employees at U.S. firms that simply are silent about their political views, religious beliefs, or pro-life views on abortion. It is not worth the risk to them to test the bounds of tolerance in their workplaces.

In that regard, profit-oriented business organizations that hire political officers and demand political conformity in the workplace are mimicking government agencies, and it is here that we turn to *Bureaucracy* by Ludwig von Mises for guidance. Mises noted that a business *cannot* be run by bureaucratic management and simultaneously be successful in satisfying consumer demands and being profitable (at least in a market system). He writes:

...the manager is not a business executive but a bureaucrat, that is, an officer bound to abide by various instructions. The criterion of good management is not the approval of the customers resulting in an excess of revenue over costs but the strict obedience to a set of bureaucratic rules. The supreme rule of management is subservience to such rules.

Mises continues:

Every kind of government meddling with the business of private enterprise results in the same disastrous consequences. It paralyzes initiative and breeds bureaucratism.

While many of the firms in question have claimed

that a “diverse” workforce also is more effective than one not diverse, one wonders why the “diversity” numbers have not reflected what the companies claim to be obvious. The people who own and run Google seem to seek factors of production that will satisfy their customers and provide profitability to the company. One cannot imagine the CEO claiming that it was hiring an officer to oversee diversity of hardware. Indeed, if hiring managers have been bringing in its “undiverse” workers simply to satisfy their own desires of making sure their hires “look like them,” then they have done their employer a disservice.

To put it another way, when these firms hire diversity officers, they are not doing so because they believe that since their inception they have been employing inferior workers, but rather because they wish to impose political directives upon their employees, directives that are in line with their own current political philosophy. However, once these companies go this route – basing production decisions upon political viewpoints – they chose to apply the bureaucratic model rather than one that is entrepreneurial.

At the present time, firms like Apple or Google are so successful and so productive that one cannot imagine their demise, and especially their demise as being self-imposed. Less than two generations ago, people were saying the same thing about General Motors and IBM. General Motors collapsed because it could not sustain its private employee welfare state model and IBM bet the house on mainframe computers. The larger point here is once companies abandon or limit their entrepreneurial focus and seek political or some other kind of conformity, they succumb to the sclerosis of bureaucracy.

Likewise, if firms like Chick-fil-A are denied the right even to exist because an executive with the firm disagrees with politicians about the Sexual Revolution, or if people are denied opportunities to work because their political views do not conform to the views of people in power, the result is lost economic opportunities, or what economists might call deadweight losses. These are real costs borne

by real people, costs for which there is no economic return.

In the former U.S.S.R. and other communist countries, one's political status has been one of the main determiners of someone's employment and standard of living. One cannot argue that such a state of affairs made life better for consumers and workers in these states and one certainly cannot argue that imposition of such political directives will do anything but harm our own economy.

Bill Anderson is a professor of economics at Frostburg State University in Frostburg, Maryland.

Tariffs: Stealing Entrepreneurs' Profits

by Doug French

New home prices are rising in Las Vegas, with rising costs being blamed. Andrew and Dennis Smith write in the June edition of The Las Vegas Housing Letter, "Rising costs have been one of the key factors cited by home builders when it comes to rising home prices."

Indeed, Trump-o-nomic theory has it that "trade wars are easy to win," so each day seems to bring a tariff de jour or foreign retaliation. The political attack on Canadian softwood has lumber prices soaring and the Housing Letter calls attention to a possible shortage of domestic cement. For sure, skilled labor is in short supply and some subcontractors have just quit bidding projects in order to get caught up with the staff they have available.

So, do costs determine prices or do buyers? Many classical economists believed it was costs. As Robert Murphy explained in 2011, "the cost theory of value provided a coherent explanation for a genuine empirical regularity in a market economy. It really is the case that retail prices bear a strong correlation to the costs of production for various goods and services. The cost theory of value gave a plausible mechanism to explain this phenomenon."

However, prospective new home buyers can walk

out of model homes if they believe the asking price is too high. In a piece I wrote for mises.org, also in 2011, I made the point, "consumers in the Western world determine the prices — not by haggling — but by buying or not buying."

For many months my desk was positioned in a corner of what my home building employer used as a sales office for a tract of homes he has under development a short distance away. In typical fashion, provided the market supports it, prices are increased as phases sell out. When customers asked why quoted prices in the future phases were higher than for the current phase under construction, the salesman would quickly offer "construction prices are going through the roof."

Most home shoppers nodded their heads, maybe remembering their college economics class and the cost or labor theory of value. Of course, that statement is true, but, one day a customer replied, "That may be, but I think supply and demand are also at work."

Indeed, as the father of the Austrian school of economics, Carl Menger, wrote in *Principles of Economics*,

There is no necessary and direct connection between the value of a good and whether, or in what quantities, labor and other goods of higher order were applied to its production.... Whether a diamond was found accidentally or was obtained from a diamond pit with the employment of a thousand days of labor is completely irrelevant for its value.

My employer's project is the only new development with homes for sale in a small town with local government growth restrictions. People want to live in this small city, and the locals don't want any more neighbors. The number of existing homes for sale is few, thus, demand exceeds supply and prices can be increased; Trump tariffs or no Trump tariffs.

Not everyone who stops by purchases one of my employer's cute little townhomes, and Menger explained why.

The measure of value is entirely subjective in nature, and for this reason a good can have great value to one economizing individual, little value to another, and no value at all to a third, depending upon the differences in their requirements and available amounts. What one person disdains or values lightly is appreciated by another, and what one person abandons is often picked up by another. While one economizing individual esteems equally a given amount of one good and a greater amount of another good, we frequently observe just the opposite evaluations with another economizing individual.

As Dr. Murphy explained, cost theory has things backward.

Here we see the methodological problem of the cost theory: By explaining final retail prices through the cost of making the goods, the cost theory implies that economic value is an objective property of physical items that flows from resources into the goods that they produce. In contrast, the subjective value theory of Menger and others starts with the valuation of consumer goods and works its way back through the prices of labor and other inputs accordingly.

Consumers decide what they will pay and determine value. Tariffs, the use of political force, determines where the buyer's proceeds end up. Favored industries receive more and the entrepreneurs receive less, lowering their profits and making them less likely to take future risks in a similar political climate. As a real estate developer, the President should know better.

Douglas French is former president of the Mises Institute, author of *Early Speculative Bubbles & Increases in the Money Supply*, and author of *Walk Away: The Rise and Fall of the Home-Ownership Myth*. He received his master's degree in economics from UNLV, studying under both Professor Murray Rothbard and Professor Hans-Hermann Hoppe.

"Taxes Are the Price We Pay to Live in a Civilized Society" – or Are They?

The state's hunger for tax revenue and control directly undermines well-intentioned humans' efforts to be civil to each other

by Jairaj Devadiga

A common sentiment among proponents of government and centralized authority is that "taxes are the price we pay to live in a civilized society." In reality, however, the state's hunger for tax revenue and control directly undermines well-intentioned humans' efforts to be civil to each other.

Punished for helping strangers in need

In Navi Mumbai, India, the police recently fined a car owner 2,000 rupees. His offense? He offered a ride to strangers who were stranded in the rain. From the Hindustan Times' summary of the shameful incident:

"Nitin Nair, an employee of a finance consultancy in Navi Mumbai, said he was fined near Airoli Circle last Monday and the on-duty officer took his driving licence for offering [a] lift to three men, who were stuck at a bus stop during a downpour. Nair said the officer issued him an e-challan and asked him to collect his licence from the chowkie (police station) after paying fine."

Apparently, it is illegal in India for private car owners to offer rides to strangers. The police later issued a "clarification," noting that they only penalize motorists who they believe "might take money from people," which is considered an offense.

"Only a vehicle with a yellow number plate (tourist vehicle) can charge passengers. We have observed that drivers charge anywhere between Rs 30 to Rs 50 for dropping people to Panvel, Belapur, Kharghar and Vashi from Airoli junction," said a traffic police officer, according to the Times.

Even if not every motorist is penalized, the fact that anybody driving with passengers can be stopped at

a police officer's whim and questioned and treated like an outlaw is enough to discourage people from helping those who need a ride.

As if that makes things any better. Even if not every motorist is penalized, the fact that anybody driving with passengers can be stopped at a police officer's whim and questioned and treated like an outlaw is enough to discourage people from helping those who need a ride.

This is especially troubling during monsoons. When it rains heavily in Mumbai, public transportation virtually shuts down, and it is next to impossible to get an auto-rickshaw or a cab. In such cases, most people rely on assistance from good samaritans such as Mr. Nair to get around.

The government, however, cares more about the license fees and tax revenues it gets from commercial transportation services than it does about people being able to get where they need to on time. In its zeal to collect taxes, it is willing to leave thousands of people stranded.

A Pervasive Problem in the "Land of the Free"

Punishing acts of charity is by no means a problem unique to India. In many American cities, for example, it is illegal to feed homeless people, at least until one has obtained a costly permit. For example, the city of Tampa, Florida, requires people to have \$1 million in liability insurance and pay an additional sum of money to the local government for permission to feed the homeless.

Governments say they do this for health reasons. If the food is not government-approved, according to their logic, homeless people will die of food poisoning. In Kansas City, Missouri, for example, the police bleached over 4,000 pounds of barbeque food because it was from an "unapproved source." More than 3,000 people went to sleep hungry that day.

Governments care more about revenues they can generate from the tourism industry than they do about ensuring everyone has enough to eat.

NPR explains that the real reason governments

don't want people feeding the homeless is rooted in greed for more revenues, mainly from tourism. If homeless people regularly congregate in public areas in search of meals, tourists might not visit those areas. Governments care more about revenues they can generate from the tourism industry than they do about ensuring everyone has enough to eat.

In Fort Lauderdale, Florida, regulations dictate that sites for feeding the homeless must be restricted to one per city block, and interestingly, at least 500 feet away from residential properties. I'm guessing the latter is to ensure higher property prices so the local government can collect more property taxes.

Feeding aside, even sheltering the homeless is illegal in many places. Consider the church that was fined \$12,000 for allowing homeless people to sleep inside without a room and board permit or the time the Los Angeles government seized tiny houses from homeless people, all in the name of "health and safety."

Governments' greed discourages both big and small business

Civilization is best defined as people helping each other and working together to create a better life. This need not necessarily take the form of charity. As Adam Smith wrote in *The Wealth of Nations*, most people unintentionally help others purely out of self-interest. Business activity is even more important than charity for a civilization to function. Even charity relies on surplus wealth, which can only come from profitable business endeavors.

Every time a government taxes the sale of a product or creates a regulation, it pushes up the price of that product, leading to the fulfillment of fewer people's needs.

Government action prevents and punishes acts of charity, as we see so consistently. It also punishes businesses through taxes and regulations. Every time a government taxes the sale of a product or creates a regulation, it pushes up the price of that product, leading to the fulfillment of fewer people's needs.

But this does not just affect big business.

Governments routinely shut down children's lemonade stands or kick out food trucks serving hurricane victims because they did not pay for the required permits first. Clearly, governments refuse to let people help each other unless they can derive some form of tax revenue out of it.

Statists often tell us that "taxes are the price we pay for civilization." The truth, however, is that civilization is the price we pay for taxation as we sacrifice goodwill and human compassion to fund the state.

This article was originally published on Fee.org.

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

Against the State by Lew Rockwell

High Priest of Treason by Melvin Stamper, J.D.

The Road to Freedom by Peter B. Bos

Nelson's Favorite Quotes

"It is always from a minority acting in ways different from what the majority would prescribe that the majority in the end learns to do better."

— F. A. Hayek

NNI's Live Seminars & Events <http://infinitebanking.org/seminars/>

October 13, 2018, Fort Worth, Texas Stay tuned for registration information.

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

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

- Thomas Young - Beaver, Pennsylvania
- Jayson Lowe - Edmonton, Alberta
- Jason Breit - Melville, New York
- Pedro Palicio - Coral Gables, Florida
- Melany Newsham - Beaumont, Alberta
- Teresa Kuhn - Austin, Texas
- Robbie Schilly - Festus, Missouri
- Harry Smallwood - Columbus, Ohio
- Scott Plamondon - Mission Viejo, California
- Mike Sidhu - Victoria & Vancouver, British Columbia
- Thomas Holder - Rockford, Illinois
- Brandon Jenkins - Jacksonville, Florida
- Tony Coccarelli - Richardson, Texas
- Jonathan Vavra-Fong - Parker, Colorado

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

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

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