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An IBC Tax Strategy *Part II*

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In this article I want to start by briefly reviewing some of the key components of the groundwork I initially laid out in Part I and then walk through some actual numerical illustrations that will help expand our understanding of this unique tax idea. As a reminder we are specifically discussing a tax strategy that calls for taking the cash flows that are already earmarked for paying your taxes and re-routing them through a correctly designed IBC policy that has the capacity to adjust to your particular situation and provide the freedom to not be dependent on outside bankers. As before, I want to emphasize that this idea does NOT reduce your tax liability—I am simply presenting options for people to redirect cash flows that would occur anyway.

Additionally, one of the most important points I made in the previous article was that this idea would resonate most strongly with business owners because they have a unique distinction that employees on a fixed income do not have. This main difference is their ability to create "windfalls" through either their business profits, or the selling of business assets. These actions can even include the selling of the entire business as the final sale and exit strategy when the business owner reaches that time in life for receiving passive income from investments. As we will see, the strategy I outline in this article is most advantageous to people with volatile income streams, which is why it should appeal to business owners first and foremost. In the initial discussion it was important for me to walk through the mechanics of a specially designed IBC policy as well as some of its most important attributes in order to impress upon the reader that after careful inspection of each of these qualities that it would dawn on the business owner, that this really is the best place where one's wealth should be "warehoused" (to use Nelson Nash's term). Since this has so many of the qualities of the *perfect* investment, why wouldn't we want to store most of our money here, as a "headquarters" if you will, while considering other potential investments?

Among these qualities I described of a properly structured dividend-paying whole life policy, these three stand out as being particularly important:

Access and Control Over Your Money: If you have cash value in your policy you have a contractual right to *policy loans*.

Flexibility of Repayment Terms: Although an outstanding policy loan rolls over at interest, you can pay it back on your own schedule, or even not at all, if you wish.

Uninterrupted Compounding Of Your Money: Whatever amount you borrow—that same amount continues to earn money in the form of interest, dividends, and equity in your policy as long as you live and as long as your policy remains in force.

By combining all of these important aspects of the living benefits of an insurance contract the hope was that one could more easily see that a specially designed IBC policy was actually the ideal cash flow and financing system for a business owner, instead of a commercial bank or any other type of investment.

Where else, but here, would a business owner put his increased profits or the proceeds from the sale of business assets? The problem is that many people don't have a steady flow of free cash to quickly fund a policy such as this, which is why I am suggesting you use your recurring tax bill as a way to get your IBC policy up and running.

Remember, the idea isn't that you are reducing your tax liability or that there is "free money" here. It's that you are flowing a regular expense (such as taxes) through the policy first. I'm picking taxes in this article because everybody pays taxes, but I could have picked any big, recurring expense. The point is that by building up the policy and taking out policy loans to pay your taxes, you (a) have a nice fat death benefit in case you die prematurely, and (b) have a much more flexible instrument that you can implicitly fund through windfalls. You can pay down your loans as your business success allows.

Examining The Numbers

We are going to examine and walk through two different hypothetical business situations so let me first introduce both scenarios. In the first example we will be studying the variables involved when using only the cash flows earmarked for taxes going into the policy and directly into the cash values. This is necessary because this money will need to be immediately available for a policy loan in order to be able to pay the tax.

This recurring cash flow will be shown going into the policy each year for a period of 10 years, combined with the minimal costs associated with the establishment of the base policy and its special riders. Since this cash flow will represent a substantial amount of funds coming into an insurance contract and going straight into the cash value portion of the policy, this special design is necessary in order to accommodate that type of *over-funding* and not create a Modified Endowment Contract (MEC).[1]

In layman's terms, a MEC indicates that an insurance contract is primarily being used as an investment instrument instead of life insurance, and with modern tax and regulatory treatment a MEC loses many of the advantages of a standard policy. To avoid this situation we must use IRS Rule-IRC 7702,[2] which means that a minimal amount of those funds will be required to set up the base part of the policy in order to allow the larger influx of cash flow to go directly into cash value. In this first illustration those amounts will be reflected as *additional* required funds separate from the tax bill cash flows. This additional cost is minimal and a business owner who recognizes the value of this infrastructure and asset should be happy to pay it.

In the second scenario we will be examining the same special IBC policy design, but it will demonstrate what business owners can do by "*pre-planning*" their company profits and taxes ahead of time. When this strategy is utilized, the funding of the specially designed IBC policy is achieved with the entire profits of the business (before taxes) instead of just with the tax bill cash flows. I should add right here that this strategy could also be done with the proceeds from the sale of a business asset (before taxes). Nevertheless, this strategy is achieved by way of corporate bonuses, or draws paid to the business owner and taken out toward the end of the year. In this way, no additional cash flow is required to fund the base policy as in Illustration I and more of the cash flow shows up in the growth of the dividends, the cash value portion of the policy and in the death benefit.

Now let's look at the first illustration, Illustration I. For convenience I have rounded the numbers off, but the table is based on an actual illustration; I wanted these numbers to be realistic. I should also stress that there are a lot of real-world considerations going into the design of this policy and the illustration I've shown you. I must stress that you should take your individual situation and describe it to someone who has been properly trained in IBC; I can only touch on some of the highlights in this article.

Illustration I is predicated on the assumption that the business owner's recurring tax bill is $100,000 and that this amount is being deposited directly into the cash value portion of the policy. (I am aware that many business owners have tax bills ranging in the millions of dollars. I used $100,000 for simplicity's sake and for its adaptability in adjusting it to your own particular situation.)

Illustration I:
Hypothetical Business Owner Who Pays $100,000 in Taxes Each Year

Age	Policy Year	Contract Premium	Loan Amount By Year	Outstanding Loan Balance	Net Premium Outlay	Net Cash Value	Net Death Benefit
46	1	$120,000	$86,000	$91,000	$34,000	$7,000	$2.4m
47	2	$120,000	$100,000	$201,000	$20,000	$0	$2.6m
48	3	$120,000	$100,000	$317,000	$20,000	$6,000	$2.8m
49	4	$120,000	$100,000	$438,000	$20,000	$13,000	$3.0m
50	5	$120,000	$100,000	$565,000	$20,000	$18,000	$3.2m
51	6	$120,000	$100,000	$697,000	$20,000	$22,000	$3.3m
52	7	$120,000	$100,000	$839,000	$20,000	$26,000	$3.5m
53	8	$120,000	$100,000	$987,000	$20,000	$28,000	$3.5m
54	9	$120,000	$100,000	$1,141,000	$20,000	$29,000	$3.6m
55	10	$120,000	$100,000	$1,304,000	$20,000	$29,000	$3.8m

The first thing to keep in mind as you study this illustration is to understand that the base policy, which has only $1 million in death benefit, cannot possibly take in $1 million in premium payments over 10 years and have them go directly into cash value without the policy becoming a MEC. We would not want that to happen or we would lose many of the important attributes that we have been discussing in these two articles and what makes dividend paying WholeLife insurance such a unique tax beneficial financial product.

Prior to 1988, wealthy individuals could easily write one big fat check and drop it into a "*single*" premium Whole-Life insurance policy and it would not be a MEC. Many people took advantage of this opportunity after the Tax Reform Act of 1986, which removed much of the special treatment given to real estate investments. Nowadays, a typical single premium whole life insurance policy would be classified as a MEC; otherwise this is what I would recommend we all do instead of configuring these insurance contracts in this special way. But we must do it this way if we wish to over fund a policy and be sure to follow the new IRS guidelines. The good news is that all *Authorized IBC Practitioners*—graduates of the course that Nelson Nash, David Stearns, Bob Murphy, and I have created—know exactly how to configure these policies in this special way.

This special configuration, which includes the special riders that are added to this particular base policy, must account and provide enough money for the cost of the insurance. This cost includes proportioned projected amounts of life insurance company *expenses* having to do with, *mortality, loads, surrenders*, and *contingency funds*, which are all built into the premium payment. These are all statutory requirements we cannot get around when dealing with life insurance. In this illustration that cost for this policy with $1 million in over funding within a 10 year period is approximately $1,700 per month or roughly $20,000 annually.

(I should also mention that there is one more distinct feature that we should point out about the specially designed IBC policy that is not often stressed and you should have no problem guessing why. That important feature is that the load expense, that portion of the cost of insurance that includes the commissions paid for the policy set-up, are considerably less than commissions paid on traditional permanent life insurance policies. In other words, for a given amount of premium payment flowing into the policy per year, a financial professional earns a lower commission configuring the policy in the "IBC" way versus a more conventional approach. This makes the special configuration of these policies, in order to over fund them legally, well worth it to the consumer, and it is yet another reason that I urge anyone seeking more information to only work with professionals who are located on our Practitioner Finder at www.infinitebanking.org/finder.)

To summarize, in Illustration I we have a business owner who normally would pay $100,000 in taxes every year. What we've done is have him roll that payment into a $120,000 premium payment for a specially designed life insurance policy, out of which he borrows $100,000 each year in order to pay his tax bill.

Now notice that this isn't merely a "wash." (There is some "drag" in Year 1 for technical reasons of policy design; I only have the business owner borrowing out $86,000 in that first year, meaning he would have to kick in the other $14,000 to pay his taxes, which is necessary to get the whole thing up and running.) In other words, that column showing "Net Cash Value" indicates how much *extra* cash is available to borrow in case the business owner needs it. But you can also see that from Years 1 through 10 he is borrowing out the money to pay his tax bill.

If you want to see how much "out of pocket" the life insurance is adding to the entire operation, look at the "Net Premium Outlay" column. That is showing how much the business owner is kicking in o*ver and above* the amount he originally earmarked for paying his taxes. In other words, when evaluating the overall marginal costs and marginal benefits of doing things this way (of just paying the $100,000 to the IRS every year), you want to look at this "Net Premium Outlay" column and then consider all of the benefits you gain by owning this policy as it matures over time.

Now at this point a perceptive reader might wonder: Why am I mixing the tax payments into this discussion? After all, if the business owner wants a modest whole life policy, why not just separately fund it with his free cash flow, instead of the particular arrangement depicted in Illustration 1?

There are two main reasons. First, by building up a large infrastructure, the business owner now has plenty of room in case he has a windfall—maybe because he has a very profitable year, or perhaps because he sells a business asset. At any point, he can take excess cash flow from the business (after he pays income tax on it of course) and use it to pay down the outstanding policy loan. That will show up dollar for dollar as more Net Cash Value immediately available to borrow, and it will boost the Net Death Benefit available. In other words, even though the net amounts of cash available are modest in Illustration 1 above, look at the gross warehouse we've created for newfound wealth: In Year 10 of the policy, there is room to devote $1,304,000 to paying off the policy loan (another way to think of over funding the policy even further), thus making that amount added to the available net cash and net death benefit.

But there is a second reason that I like in the strategy shown in Illustration 1. Even *without* windfalls, look at the sizeable piece of property the business owner is building up. In particular, look at the death benefit. It is amazing to me that so many people talk about the cash flow properties of life insurance and yet they lose sight of the value of the death benefit! For example, even in just the fourth year of the policy, the net death benefit—meaning after the policy loan has been taken care of—is already $3 million. That will pass income-tax-free to the business owner's beneficiaries. By Year 10, the net death benefit (net of the $1.3 million in policy loans) has grown to $3.8 million.

So in conclusion, what Illustration I shows us is that a business owner who has the ability to devote $20,000 of free cash flow each year into a whole life insurance policy can *augment* it tremendously by redirecting a large expense (such as a recurring tax payment) through the policy. If the business owner understands the benefits of having a modest sized policy, then he should understand the benefit of erecting the gross infrastructure for a much larger policy, waiting to warehouse his future wealth as windfalls present themselves. And, if he should unfortunately die in the meantime, then his heirs get a much larger death benefit check under this approach.

The Second Scenario: Pre-Planning Profits and Taxes

In last month's installment of this article, in Part I, I stated that it is not possible to fully grasp the financial implications discussed here until one has become an owner of a well funded specially designed IBC policy and has been practicing IBC in their own life. So clearly the ideas discussed here are not for the novice. However, I do believe that a business owner is able to relate to what I am trying to explain here much quicker than a salaried employee on a fixed income. Business owners can relate to windfalls. They are also able to predict with some reasonable assurance how much profits and tax liability their business will generate in the present year. So Illustration II examines this pre-planning aspect of setting up a specially designed IBC policy, how the cash flows going in differ, as well as the results, and why.

In this illustration we do have the same components involved such as the base policy and its riders configured in the special design to avoid the MEC problem. However, in this example the business owner has determined that his business will earn a profit of $1.5 million this year before he pays any taxes. If the business is a "C" corporation, the business owner knows that these profits tend to accumulate and show up in his bank account and that in order to avoid paying taxes of 35% of his profits corporately and then again personally at 35-39%, that bank account needs to be emptied before the end of the year. This is a common problem of most all closely held "C" corporations.

If the business owner operates an LLC, or an "S" corporation, then his business profits will flow to him personally and he will pay 35-39% in taxes on these profits. If we assume that the business owner who operates the "C" corporation is able to zero out his corporate profits before year end and only pays personal taxes like the owner of the LLC and S, then in all these cases the tax bill will be $530,000. The profit after taxes ($970,000) goes to the business owner's personal savings account (a commercial bank), or into an investment (land, real estate, stock market, etc.), or it is plowed back into the business and used to pay off loans, lines of credit, or left in the business as additional working capital.

What Illustration II is demonstrating is that the business owner has decided that the best place to warehouse one's personal wealth is in a specially designed IBC policy. This is where the residual after tax money (the $970,000) should ultimately reside instead of where it has been previously placed. After all, it is easily accessible and is continually earning money, whether you take out policy loans or not. Plus, the flexibility of the repayment terms is so generous that the business owner can make the element of time work in his or her favor. Consequently, the benefit of flowing the entirety of the business profits to the business owner utilizing a bonus check or draw and then having those monies drop directly into the policy (without paying the federal tax) is the ideal tax strategy. The $530,000 tax bill on that amount of money each year is paid using policy loans as you see illustrated in this example over a period of 10 years. As you can see in the Net Premium Outlay column the residual after tax money (the $970,000) is how much the business owner is kicking into the policy over and above the money that is ultimately destined for the IRS (the $530,000.). It is *this* net premium outlay that is effectively buying the flow of ever-growing available Net Cash Value and Net Death Benefit figures over time.

Before we examine the loan balance including the interest, which is rolling over for 10 years straight (a total of $6.8 million), check out the results of

Illustration II:
Hypothetical Business Owner Who Grosses $1.5 million Before Taxes

Age	Policy Year	Contract Premium	Loan Amount By Year	Outstanding Loan Balance	Net Premium Outlay	Net Cash Value	Net Death Benefit
51	1	$1.5 m	$530,000	$559,000	$970,000	$430,000	$27.0m
52	2	$1.5 m	$530,000	$1.1 m	$970,000	$1.8 m	$29.0m
53	3	$1.5 m	$530,000	$1.8 m	$970,000	$2.7 m	$30.8m
54	4	$1.5 m	$530,000	$2.4 m	$970,000	$3.6 m	$32.7m
55	5	$1.5 m	$530,000	$3.1 m	$970,000	$4.4 m	$34.6m
56	6	$1.5 m	$530,000	$3.7 m	$970,000	$5.4 m	$36.4m
57	7	$1.5 m	$530,000	$4.4 m	$970,000	$6.5 m	$38.0m
58	8	$1.5 m	$530,000	$5.2 m	$970,000	$7.5 m	$39.8m
59	9	$1.5 m	$530,000	$5.9 m	$970,000	$8.6 m	$41.9m
60	10	$1.5 m	$530,000	$6.8 m	$970,000	$9.8 m	$43.2m

this particular policy once it is up and running. For example, after the fifth year there is $4.4 million available in cash value to borrow for any investment opportunity, and if the business owner should happen to die that year, he leaves a hefty $34.6 million death benefit to his named beneficiaries. Also note that there is $15 million in cash flowing into this policy in 10 years without it becoming a MEC. The cash value in the tenth year is close to $10 million and the death benefit is $43 million.

As with the original, more modest illustration, here too we must appreciate the tremendous infrastructure that our business owner has erected for himself. A business owner's potential for windfalls can be "placed in" this particular policy after the tenth year with an additional $6.8 million (as of year 10) by using profits or sale of business assets to pay off the policy loans, which he should do. (I'm using "placed in" in quotation marks, because really what is happening is that he's paying down the loan and thus reducing the lien against his gross asset.) Afterward, the dividends can be re-directed and paid to the business owner income tax free up to the point at which he has recovered his entire "cost basis" in the policy, the cash value and death benefit will continue to grow and at the death of the business owner, the death benefit passes over to the beneficiary income tax free. And all along, the amounts shown in the "Net Cash Value" column is available for immediate borrowing, should the business owner desire. This is the exact opposite of tax-qualified plans that lock your money up in prison. If this idea appeals to you and you wish to implement it for your own business, let me remind you one last time that I encourage you to work closely with your CPA or tax advisor to get it fully structured. Once your tax advisor understands the main objective (based on what I am trying to get across in these articles) and why it is you specifically want a specially designed IBC policy of this type, your tax professional can then help you plan out the flow of these monies all within the IRS requirements pertaining to your particular corporate entity.

Supported with this assistance, together with the advice from an Authorized IBC Practitioner from our finder https://infinitebanking.org/finder/, and by using a top rated mutual life insurance company to underwrite the policy, you can be confident of having structured the ideal cash flow system.

Conclusion

The thrust of this two-part series of articles was to introduce a tax strategy that calls for taking the cash flows that are already earmarked for paying your taxes and re-routing them through a correctly designed IBC policy that has the capacity to adjust to your particular situation and provide the freedom to not be dependent on outside bankers.

I hit on this idea once I realized that many individuals simply do not have a steady flow of free cash to quickly fund a policy such as this and since we all pay taxes and they do come around every year, why not use these available cash flows to get the policy up and running?

I knew that it would appeal to business owners in particular since they already understand the necessity of practicing sound cash flow management while maintaining open lines of credit with lenders in order to keep their businesses operating profitably. But specifically, business owners have the ability to create "*windfalls*" through business successes and the sale of business assets that can be used to pay off policy loans with optimal flexible terms not available elsewhere.

Explaining the mechanics of these unique insurance contracts was necessary in Part I and in Part II we simply walked through the numbers to expand our understanding of how this idea would actually work.

Obviously, we were never talking about eliminating the tax bill or creating money out of nowhere, but we were illustrating that given all of its unique characteristics, including its special tax treatment, the specially designed IBC policy is ultimately where everyone should warehouse their wealth. Operating from this headquarters, money can be easily deployed to take advantage of most any business opportunity or investment. Since there is never any pressure to pay-off policy loans, time becomes our ally. In Nelson Nash's way of expressing it, "*IBC creates a very peaceful and stress-free way of life.*"

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The Great Recession, 10 Years Later

Richard M. Ebeling

What we now know was one of the worst post-World War II economic and financial crises began about ten years ago in 2007. Various retrospective commentaries have focused on the severity of the economic downturn, its impact on different markets and segments of the population, and the lessons from it. An especially important lesson to be learned is that this was a crisis caused by government policy, and not something inherent in a free market economy.

The recession has its origin in years of monetary mismanagement and misguided interventionist policies emanating from the Federal Reserve System and Washington, D.C.

Monetary Expansion

Between 2003 and 2008, the Federal Reserve flooded the financial markets with a huge amount of money. The Federal Reserve's M-2 measurement of the money supply (cash, checking accounts and various small denomination savings and investment accounts) increased by nearly 40 percent during those five years. The Federal Reserve's MZM money measurement (M-2 plus a variety money market accounts minus some time deposits) expanded by almost 50 percent over that half-decade.

The St. Louis Federal Reserve Bank tracks the impact of monetary expansion on nominal and real interest rates. For most of those years, key market rates of interest, when adjusted for inflation, were either zero or even negative.

Between late 2002 to the end of 2005, the Federal Funds Rate (the rate at which banks lend funds to each for short periods of time) and the one-year Treasury security yield were between zero and minus two percent, when adjusted for price inflation (as measured by the Consumer Price Index).

They rose into positive territory in 2006 and 2007, but then they tumbled back into the negative range in early 2008. And ever since then, except for a brief period in 2009, they have remained in the real interest rate negative range, sometimes a negative two to even four percent.

Interest Rate Manipulation

What does that actually mean? Suppose that I agree to lend you $100 for a year, with your promise to pay me back the principle of $100 plus $2, representing a two percent interest on the money, at the end of the twelve months. But suppose that at the end of that year you hand me not the $100 that I lent you, but only $98? Not only have I not gotten back my original $100 with the promised $2 of interest payment, I'm short $2 of what you originally borrowed.

Now, once more, suppose I lend you $100 with your promise to pay me $102 a year from now. And suppose that, in fact, at the end of the twelve months you do pay me back $102. But also suppose that during that year prices have increased by two percent. A basket of goods that I might have been able to purchase with that $100 before I lent you the money now costs $102 to buy. In real buying terms, the $102 I received from you is only enough to buy the same basket of goods that $100 bought a year earlier. In real buying terms, as the lender, I've received no positive interest income from my lending to you.

Banks not only lowered the cost of borrowing, they also lowered their standards for creditworthiness. But suppose that prices have risen, by more than two percent, so that basket of goods increases in cost to, say, $104 dollars. Then the $102 you return to me is not even enough to buy the same basket of goods from a year earlier. That represents a "negative" rate of interest on my lending.

Of course, from the borrowers point-of-view the lenders' loss is his gain. He returns principle and interest that has depreciated in market buying power over the period of the loan, thus obtaining investable funds at a lower cost than if prices, in general, had remained relatively stable or if the nominal interest of interest had been higher relative to the rate of price inflation during that time.

The Housing Bubble and Crash

Due to Federal Reserve monetary policy during 2003-2008, the banking system was awash in money to lend to all types of borrowers. To attract people to take out loans, banks not only lowered nominal interest rates (and therefore the cost of borrowing), they also lowered their standards for creditworthiness.

To get the money out the door, financial institutions found "creative" ways to bundle mortgage loans into tradable packages that they could then pass onto other investors. It seemed to minimize the risk from issuing all those subprime home loans that were really the housing market's version of high-risk junk bonds. The fears were soothed by the fact that housing prices kept climbing as home buyers pushed them higher and higher with all of that newly created Federal Reserve money.

With interest rates so low, there was little incentive to save for tomorrow and big incentives to borrow today.

At the same time, government-created home-insurance agencies like Fannie Mae and Freddie Mac were guaranteeing a growing number of high-risk mortgages, with the assurance that the "full faith and credit" of Uncle Sam stood behind them. By the time the Federal government took over complete control of Fannie and Freddie in 2008-2009, they were holding the guarantees for half of the $10 trillion American housing market. (See my article, "A Collapse Made in Washington," p. 4).

Low-interest rates and reduced credit standards were also feeding a huge consumer-spending boom that resulted in a 25 percent increase in consumer debt between 2003 and 2008, from $2 trillion to over $2.5 trillion. With interest rates so low, there was little incentive to save for tomorrow and big incentives to borrow and consume today. But, according to the U.S. Census Bureau, during this five-year period average real income only increased by 2 percent at the most. People's' debt burdens, therefore, rose dramatically.

The Federal Reserve's easy money and U.S. government's guaranteed mortgage house of cards all started to come tumbling down in 2008, and then with a huge market crash in 2008-2009. The monetary-induced low interest rates and creative credit methods resulted in a significant misuse and misallocation of resources: Too many houses that too many people could not afford; too many investment projects that were unsustainable in the post-bubble environment; and too much consumer debt for what people could realistically afford out of their recession-adjusted wealth and income.

Post-Crash Monetary Expansion and Interest Rate Manipulations

The same Federal Reserve System that produced the monetary excesses that generated the bubble and its eventual burst then got busy flooding the financial markets with even more newly created money.

Between 2009 and 2016, America's central bank increased the Monetary Base (cash and reserves in the banking system) by more than $3 trillion by purchasing U.S. government securities and buying a huge amount of "toxic" mortgage-backed securities, adding to its own portfolio of "assets" by the equivalent amount. During this time, the Federal Reserve's M-2 and MZM measurements of the money supply each increased by almost 85 percent from what they were in 2008, a near doubling of the money supply being utilized by people in the marketplace.

Even a small differential adds up to a lot of money.

But with such a huge $3 trillion increase in the amount of available lending reserves due to the Federal Reserve's buying of U.S. Treasuries and mortgages, many expected much larger growth in M-2 and MZM and a more significant increase in general price inflation over time. Instead, prices in general only increased by about 16 percent between 2008 and 2016.

The reason for this was a new twist to the Federal Reserve's manipulation of money in the banking system. Since 2008, the central bank has been paying banks not to lend. To the extent that individual member banks find the rate of interest offered to them on excess (unlent) reserves more attractive (given risk, credit worthiness of potential borrowers, etc.) more potentially profitable than lending all the reserves at their disposal to you and me, they have leftover $2 trillion of those reserves "parked" on the books with the Federal Reserve.

The actual interest differential that has made it attractive for banks to hold large excess reserves may be small in absolute terms but when we're talking about hundreds of millions of dollars at a bank's discretion, even a small differential adds up to a lot of money.

Government Intervention Hindered Market Rebalance

The U.S. economy and the American citizenry could not escape a correction process after 2008. Housing prices were pushed far too high and had to settle down to more realistic levels. And some people just could not afford the homes they purchased during the bubble period; they would not have gotten into this financially distressful situation if artificially low-interest rates and loan guarantee programs had not put them in those houses to begin with.

Companies that were overextended had to dramatically downsize, and in some cases go out of business. Workers, who were drawn into unsustainable jobs and wages due to all of that Federal Reserve money sloshing around the economy, found themselves unemployed.

Implementation of ObamaCare exacerbated economic recovery difficulties.

In spite of the politicians' promises and Keynesian-style delusions, the trillion-dollar Federal bailouts and "stimulus" packages only prolonged the agony and delayed any real economic recovery. This began with the forced infusion of capital into the banking system during the last months of the George W. Bush Administration through partial "nationalization" in the form of compulsory government acquisition of bank stock, that took years to finally unwind.

What the Bush Administration began in its last year in office, the Barack Obama Administration continued in 2009. Due to uncertainty of its costs and impacts, the agonizing implementation of ObamaCare exacerbated economic recovery difficulties. (See my article, "For Healthcare, the Best Government Plan is No Plan".)

At the same time, regulatory control over the market strangled the capacity for faster recovery. In 2016, the Federal Register of federal regulations came to almost 100,000 pages of bureaucratic rules, restrictions and commands, a 20 percent increase from 2008 when the regulatory rules covered a "mere" about 80,000-printed pages in the last year of the Bush Administration.

It is estimated that it costs around $2 trillion in compliance expenses for businesses to report and meet the demands of government regulatory agencies; this was more than 10 percent of the U.S. Gross Domestic Product in 2016.

Lagging Labor Markets

Another factor in the sluggish economic recovery has been the labor market participation rate. In 2007, the number of people in the labor force was 66.4 percent of the working age population. In 2017, the labor force participation rate fell to 62.9 percent of the working age population, a more than 8 percent decline. Over this decade the working age population in the United States grew by around 10 percent, but the number of people entering the labor force was only 4 percent, according to the Bureau of Labor Statistics.

Where did those working age members of the population go if not into the workplace? The Obama Administration significantly reduced the eligibility requirements for receiving disability benefits from the Social Security Administration, regardless of age. The number of people meeting lower eligibility standards, who in turn stayed out of the workplace, increased from 6.8 million to over 8.8 million over 10 years, a near 30 percent increase.

Meanwhile, Social Security Disability spending increased from $90 billion in 2005 over $150 billion in 2016, a 60 percent increase.

While the government's official unemployment rate may have come in at a low of 4.3 percent of the labor force in July 2017, the general youth unemployment rate was 11.4 percent and the African-American youth unemployment rate came in at 25.4 percent.

In other words, government grabs more than 1 out of every $3 of output in the economy. In addition, the Bureau of Labor Statistics estimates that part-time workers who would gladly accept full-time employment and discouraged workers who wish they could find work and have stopped trying, if added to the official measure, would bring July 2017 unemployment in the US to 8.9 percent.

This is hardly an example of a successful employment outlook, especially since some people who can't find desired full-time employment are stuck in part-time work due to the ObamaCare employer mandate.

Government Spending and Growing National Debt

A fuller recovery from the 2008-2009 recession has also been burdened by taxation at all levels of government – federal, state and local – which currently comes to around 35 percent of U.S. Gross Domestic Product. In other words, government grabs more than one out of every three dollars of market-valued output in the economy. In absolute numbers, out of a projected $19 trillion GDP in 2017, all levels of government are forecast to absorb about $7 trillion this year in government spending.

But not all that government spends comes from taxes. Borrowing, especially at the federal level, covers a large part. This has been dramatically increasing the overall federal debt.

There is no end in sight for continued growth in government debt.

The competitive process of supply and demand brings the productive activities of tens of thousands of businesses into balance with the demands of all of us as consumers

When George W. Bush entered the White House, the U.S. federal debt stood at $5 trillion dollars. It doubled under his administration to $10 trillion. During the eight years of the Barack Obama administration, the national debt doubled once more, to nearly $20 trillion when he left office in January of 2017.

There is no end in sight for continued growth in government debt as the annual budget deficits continue and are expected to grow over the next decade due to distributive "entitlement" programs. (See my article, "Trump's Budgetary Blueprint Retains America's Welfare State".)

No wonder that it has taken a decade for the U.S. economy to have some semblance of an economic recovery, though far from what a free market would have been able to do, and could be doing.

Capitalism Is the Solution, Government Is the Stumbling Block

The capitalist system is a great engine of human prosperity. It creates the profit incentives for industry and innovation that have literally raised hundreds of millions of people out of poverty around the world over the last half century. The competitive process of supply and demand brings the productive activities of tens of thousands of businesses into balance with the demands of all of us as consumers, both here in America and around the globe.

There is no economic system in history that has had the same ability to do so much material and cultural good.

There is no economic system in all of history that has had the same ability to do so much material and cultural good as the open, competitive free market. But the capitalist system cannot do its job if the government interferes with its operation. Burdensome government taxes, heavy-handed government regulation, misguided government spending, and mismanagement of the monetary system only succeed in gumming up the works like so much sand in the machine. (See my article, "The Free Market vs. the Interventionist State".)

The best pro-active policy the Federal government and the Federal Reserve could have taken following the beginning of the 2008-2009 recession would have been to admit that its own past policies caused the economic crisis, and then leave the market alone to rebalance itself and re-establish the basis for sustainable growth and employment.

But, of course, this would have required the reversal of the premises, presumptions and political plundering of the modern interventionist-welfare state, and its accompanying system of monetary central planning. It would require a rejection of the collectivist ideological and policy perspectives that continue to dominate and direct all that governments around the world, including in the United States.

It would also clarify the fact that everything the American economy has gone through over the last decade is not a "crisis of capitalism," understood as a truly free market, but the crisis of the government managed and manipulated system of economic control, command, and accompanying corruption. Alas, we are not likely to see either any such admission or rejection in the immediate or foreseeable future.

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Homeschoolers: The Enemy of Forced Schooling

Kerry McDonald

I was born in 1977, the year John Holt launched the first-ever newsletter for homeschooling families, Growing Without Schooling. At that time, Holt became the unofficial leader of the nascent homeschooling movement, supporting parents in the process of removing their children from school even before the practice was fully legalized in all states by 1993. Today, his writing remains an inspiration for many of us who homeschool our children.

Mass schooling is, by its nature, compulsory and coercive.

Holt believed strongly in the self-educative capacity of all people, including young people. As a classroom teacher in private schools in both Colorado and Massachusetts, he witnessed first-hand the ways in which institutional schooling inhibits the natural process of learning.

Holt was especially concerned about the myriad of ways that schooling suppresses a child's natural learning instincts by forcing the child to learn what the teacher wants him to know. Holt believed that parents and educators should support a child's natural learning, not control it. He wrote in his 1976 book, Instead of Education:

"My concern is not to improve 'education' but to do away with it, to end the ugly and anti-human business of people-shaping and to allow and help people to shape themselves."

Self-Determined Learning

Holt observed through his years of teaching, and recorded in his many books, that the deepest, most meaningful, most enduring learning is the kind of learning that is self-determined.

As "the enemy," we homeschoolers reject the increasing grip of mass schooling.

One of his most influential books, originally published in 1967, is How Children Learn. This month, it was re-published in honor of its 50th anniversary, with a new Foreword by progressive educator and author, Deborah Meier. In her early days as an educator, Meier says, she was influenced by Holt's work and was particularly drawn to his revelation that even supposedly "good schools" failed children through their coercive tactics. Meier writes in the Foreword:

"While following Holt's deep exploration of how children learn I therefore wasn't surprised to discover Holt had joined 'the enemy'—homeschoolers. His little magazine, Growing Without Schooling, was the most useful guide a teacher could ever read. As time passed I began to change my views of homeschooling. I'm still first and foremost working to preserve public education but homeschoolers can be our allies in devising what truly powerful schooling could be like. If we saw the child as an insatiable nonstop learner, we would create schools that made it as easy and natural to do so as it was for most of us before we first entered the schoolroom."

Compulsory Education is Always Coercive

The trouble with Meier's line of reasoning is that it presumes this is something schools can do. Mass schooling is, by its nature, compulsory and coercive. Supporting "an insatiable nonstop learner" within such a vast system of social control is nearly impossible.

Holt said so himself. In his later books, as he moved away from observations of conventional classrooms and toward "the enemy" of homeschoolers, Holt acknowledged that the compulsory nature of schooling prevented the type of natural learning he advocated. He writes in his popular 1981 book, Teach Your Own:

"At first I did not question the compulsory nature of schooling. But by 1968 or so I had come to feel strongly that the kinds of changes I wanted to see in schools, above all in the ways teachers related to students, could not happen as long as schools were compulsory

Holt continues:

"From many such experiences I began to see, in the early '70s, slowly and reluctantly, but ever more surely, that the movement for school reform was mostly a fad and an illusion. Very few people, inside the schools or out, were willing to support or even tolerate giving more freedom, choice, and self-direction to children….In short, it was becoming clear to me that the great majority of boring, regimented schools were doing exactly what they had always done and what most people wanted them to do. Teach children about Reality. Teach them that Life Is No Picnic. Teach them to Shut Up and Do What You're Told."

While progressive educators like Meier may have the best intentions and believe strongly that compulsory schools can be less coercive, the reality is quite different. Over the past half-century, mass schooling has become more restrictive and more consuming of a child's day and year, beginning at ever-earlier ages. High-stakes testing and zero tolerance discipline policies heighten coercion, and taxpayer-funded after-school programming and universal pre-k classes often mean that children spend much of their childhood at school.

Compulsory schooling cannot nurture non-coercive, self-directed learning.

As "the enemy," we homeschoolers reject the increasing grip of mass schooling and acknowledge what Holt came to realize: compulsory schooling cannot nurture non-coercive, self-directed learning. Holt writes in Teach Your Own: "Why do people take or keep their children out of school? Mostly for three reasons: they think that raising their children is their business not the government's; they enjoy being with their children and watching and helping them learn, and don't want to give that up to others; they want to keep them from being hurt, mentally, physically, and spiritually." Today, those same reasons ring true for many homeschoolers.

It's worth grabbing the anniversary copy of John Holt's How Children Learn. His observations on the ways children naturally learn, and the ways most schools impede this learning, are timeless and insightful. But it is also worth remembering that Holt's legacy is tied to the homeschooling movement and to supporting parents in moving away from a coercive model of schooling toward a self-directed model of learning. After all, Holt reminds us in Teach Your Own:

"What is most important and valuable about the home as a base for children's growth in the world is not that it is a better school than the schools but that it isn't a school at all."

Kerry McDonald has a B.A. in Economics from Bowdoin and an M.Ed. in education policy from Harvard. She lives in Cambridge, Mass. with her husband and four never-been-schooled children. Follow her writing at Whole Family Learning.

Leonard Read, Font of the Liberty Movement

by Jeffrey Tucker

FEE is enormously pleased to announce the first-ever Collected Works of Leonard Read, a single download of all his books and articles, a literary legacy of one million words and 10,000 pages, fully searchable and unrestricted by digital rights management. Thanks to the genius of digital distribution, it is a speedy download and can be carried around on any digital device.

In ways that are not fully appreciated today – and perhaps this effort will change that – Leonard Read was the font of the liberty movement in the United States. He was writing about this subject at a time when hardly anyone else was, from 1937 until his death in 1983. But he did more than write. He organized, marketed, and built an institutional support system for the ideas of freedom to make sure they could become a driving force of history.

Crucially, he gathered like minds into his new organization, the Foundation of Economic Education, founded in 1946. His writings set the tone and agenda. But he also knew that the ideas of liberty would be a collaborative venture, with no one hero or intellectual godfather or dictator. Nor was it about political agitation – and not even about Right vs. Left – but education and cultural influence. Toward what end? The unleashing of the human spirit from the shackles of government control.

It was this lifelong effort that created the essential building blocks for everything that followed. Any version of the modern history of libertarian ideas that excludes his role is incomplete. His writings inspired many generations of thinkers, activists, businesspeople, donors, and statesmen in profound ways, and left a huge mark on the course of history.

Consider what F.A. Hayek himself said. In 1968, Hayek reflected on how even he had underestimated the power of Read's thought and actions. Because

Read was not an academic, Hayek had thought of him as a popularizer. Hayek admitted his error:

> I want to use this occasion, however, publicly to admit that in that view of Leonard Read I was mistaken and that in the course of these twenty-one years my estimate of him progressively changed. I found not only that he knew much more than most of the rest of us about the opinions governing current policies, and was therefore much more effective in meeting the errors in them: I had rather hoped that, though I did not know how well it could be done. But I found also that he was a profound and original thinker who disguised the profundity of his conclusions by putting them into homely everyday language, and that those of us who for a time, and perhaps somewhat condescendingly, had seen in him mainly a populariser found that they had a great deal to learn from him.
>
> Leonard Read has indeed become in our circle, in which the nonacademics are still a small minority, not only one of the best liked but one of the most respected members, one on whom they rely not only to spread the gospel, but as much to contribute to the development of ideas. Nothing, therefore, gives me greater pleasure than to be able to join in this celebration of his achievement. And, if one who is his junior only by a few months may conclude on a personal note, the greatest pleasure in this is that on this occasion one may still expect even more from him in the future than he has already done in the past.

New and fresh ideas do not appear as if by magic in a culture. They have a source of transmission, a determined writer or thinker. It was Read who did that, preventing the idea of free markets from entirely dying during the 1930s and building a bridge for them to survive in the postwar world.

Consider when he began his work. At the height of the New Deal, with American politics and economic life locked down and managed from the center, the old ideals of free markets did not seem to have much of a chance. There were no distribution centers for alternative ideas. There were no think tanks and no alternative media centers. The universities had become completely captive of regime thinking. Party politics were no help. The notion of economic freedom was widely disparaged in almost anything you could get your hands on to read.

In this period, a man named Read began to think of a way forward for a new way of thinking. He knew that change had to come through the realm of ideas. A new model was needed, a way to distribute these ideas. A former grocer and entrepreneur from Michigan, he was working at the Chamber of Commerce in Los Angeles, and frustrated at the lack of vision he encountered. In 1937, he wrote his first book, *The Romance of Reality*, a celebration of the human spirit and an expose of government's role in crushing it.

Nine years later, he had a new job. He was running the Foundation for Economic Education. This was the organizing center for free market ideas for the entire English-speaking world. The influence of FEE over the decades is incredible to consider. FEE has been named as the font of influence for nearly every liberty-minded public intellectual in the postwar period. It is impossible to tell the story of the rise of free markets in our time without putting FEE and Read at the center.

So it is long past time for this edition of his Collected Works to be in print. Please download it and share it widely. There is still so much to learn from him. Even all these years after his passing, the power of his ideas can be felt in this generation and all that follow. This is a gift to the ages.

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When Georgia Banned Football (Almost)

by Lawrence W. Reed

In the 2015 film, "Concussion," forensic pathologist Dr. Bennet Omalu (played by Will Smith) declares, "God did not intend for us to play football."

Neither did the two houses of the Georgia state legislature in November 1897, when they voted to ban the sport throughout the state. If it hadn't been for a grief-stricken but thoughtful mother and a young, attentive Governor, today's Georgia Bulldogs might be playing in a kennel instead of a stadium

Football in parts of Georgia is almost as sacred as the Shroud of Turin is to Catholics.

A disclaimer: I don't mean to diminish the risks and dangers of the national pastime that millions of Americans play, watch and tailgate over. One can hardly read about the alarming number of chronic traumatic encephalopathy (CTE) cases traceable to football injuries without wondering if more should be done to make the game safer. And to learn about the sad travails of particular players whose names you know, like former New York Jets defensive back Jim Hudson or Heisman Trophy winner Jim Plunkett, is to glimpse the pain and suffering firsthand.

Football in parts of Georgia is almost as sacred as the Shroud of Turin is to Catholics. The never-ending tug-of-war between the University of Georgia's Bulldogs and Auburn University's Tigers is known as "the Deep South's Oldest Rivalry." When I asked a man from my neighborhood's homeowners association a few years ago if his committee had any problems with my erecting a flagpole in my front yard, he replied, "Not unless you put an Auburn flag on it." Atlanta was even home to America's most lop-sided college football score in the history of the game: 222 to 0 in a 1916 match between Georgia Tech and Tennessee's Cumberland College. (Tech won).

Down, Set, Hike

It was a balmy Halloween Eve 1897 when the University of Virginia and the University of Georgia faced each other on the field in Atlanta. Republican William McKinley was President and 43-year-old William Yates Atkinson, in the stadium to watch the game with his wife, was Georgia's Democratic Governor. (Atkinson, I'm proud to note by the way, was one of only two of Georgia's 82 governors to hail from my adopted hometown of Newnan. I first learned this football story from the ever-helpful Mark Puckett, who tends the store inside the historic courthouse in downtown Newnan, where a great portrait of Atkinson hangs.)

Seventeen-year-old Richard Albade Von Gammon played fullback for UGA. From Rome, Georgia, Von Gammon was a good-looking and exceptionally good football player. He was eager for his team to win what was billed as a very important game against a very big rival.

In a biography of Governor Atkinson, Newnan native David Clifton Heck recounts the pivotal moments:

At the beginning of the second half, the scrimmage was near the center, left side of the field. The ball was in the possession of Virginia. It was not known who of Virginia was holding the ball, but Von Gammon was close by and lunged at the player with the ball. Nobody knows now or then what exactly happened. Von Gammon missed the tackle, and then there was a colossal pile-up of players on top of other players. Underneath was Von Gammon, who had hit the ground with a tremendous thud…

The whistle blew; the players got up and moved away, all except Von Gammon. Here there are varying accounts. But most say that he was picked up dazed and half-conscious… One of the doctors quickly injected some morphine in an effort to revive him and relieve the pain. The doctors agreed that the injury was a brain concussion, an unusually severe one.

When UGA team captain William Kent, not realizing yet the full extent of the boy's injury, said to him, "Von, you are not going to give up are you?" the reply he heard was, "No Bill, I've got too much Georgia grit for that." Those were Von Gammon's last words. He lapsed into unconsciousness and died early the next morning in Atlanta's Grady Memorial Hospital, surrounded by his parents and friends.

Banning Football?

A year before, alarmed by the high rate of football injuries, a member of the Georgia legislature introduced a bill to outlaw the sport. It went nowhere. But now in the wake of the Von Gammon incident, anti-football sentiment quickly gathered steam. Governor Atkinson indicated he was sympathetic. Within a month, a new bill to vanquish football passed both houses. In the words of biographer Heck, it "was so broad that not only young adults could be fined, imprisoned, and sent to the chain gang, but technically and definitely the way the thing was worded, so could children."

As sweeping as the bill was, Governor Atkinson was about to sign it when he learned of a letter from Von Gammon's mother Rosalind. It read in part,

It would be the greatest favor to the family of Von Gammon if your influence could prevent his death being used for an argument detrimental to the athletic cause and its advancement at the University. His love for his college and his interest in all manly sports, without which he deemed the highest type of manhood impossible, is well known by his classmates and friends, and it would be inexpressibly sad to have the cause he held so dear injured by his sacrifice. Grant me the right to request that my boy's death should not be used to defeat the most cherished object of his life

Atkinson vetoed the bill. The pleadings of Robert's mother made all the difference. They prompted the Governor to pull back from a hasty move and he used the occasion to remind the legislature of some things it shouldn't have forgotten: The bill went far beyond the proper limits of government, violated "sound policy and fixed principles," and interfered with parental authority and personal liberty. When football is played properly and with due consideration for safety, he said, it promoted physical, moral and intellectual development, as well as courage, courtesy, and control of one's temper.

Rosalind Burns Gammon became known as "the woman who saved Georgia football." Her son Robert Albade Von Gammon is remembered as a fine young man with a mother who cared about him and his legacy. And William Yates Atkinson is recalled as one of Georgia's better chief executives.

Pigskin, Free Will, and the Man Upstairs

Was Dr. Omalu right, that God didn't intend for us to play football? I don't know the answer to that, though I admit I only checked the New Testament. The closest thing I found was foot-washing, and He seemed to be recommending it.

It seems far more likely to me that God would intend for you to exercise informed free will and personal judgment in the matter, to take precautions whenever you can. I believe he might remind you (on good authority) that you can die from any number of things, and sooner or later will.

I think He would want you to comprehend the risk before you decide to accept it, just as He would if the matter was skydiving or drag racing or sailing in a tempest on the Sea of Galilee. He would likely encourage efforts to improve the safety of the game, something that's been happening naturally for most of the 120 years since Richard Von Gammon lost his life on October 31, 1897.

God might want you to listen to your mother's opinion on football too. But I seriously doubt if God intends for politicians to fine or jail people who play it.

Just sayin'.

Lawrence W. Reed

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Private Property and Higher Ed

by Peter G. Klein

The US higher-education world has been rocked the last two years by student protests, "free-speech" controversies, and allegations of faculty misconduct at schools as diverse as Missouri, Yale, Middlebury, Berkeley, and Evergreen State College. You've all heard about safe spaces, microaggressions, intersectionality, snowflakes, claims that certain forms of speech constitute violence, and so on. Professors have been assaulted by protesters and even fired or pressured to quit for expressing politically controversial ideas (though some are protected). Certain private groups have been banned, even from meeting off campus. Students, faculty, and staff are subjected to endless hours of sensitivity training, despite evidence that such programs increase, rather than alleviate, tensions among groups. Some schools are already experiencing blowback, while others are taking advantage of these controversies to differentiate themselves from rivals. Pundits are predicting campus craziness as the next hot-button issue in US presidential politics. What is to be done?

While I greatly admire the efforts of groups like FIRE to protect the rights of faculty and students accused of politically incorrect speech or action, I disagree with them on one fundamental point. The First Amendment protects freedom of expression for students and professors at state-owned and publicly funded colleges and universities, and it's perfectly appropriate for the courts or regulatory agencies to discipline schools that punish speech.

At private schools, however, it's a different story. Restrictions on the speech or behavior of students or faculty may violate a contract -- for instance, a university that states a public commitment to free speech, then disciplines a student for saying or doing something politically incorrect, may have breached its contract with the student and could be liable for damages. A college that includes protections for academic freedom in its agreement with faculty, then fires a professor for something he said in the classroom (or tweeted or wrote in an op-ed or shouted at a rally) may be guilty of breach of contract. Of course, the school could argue that the student violated the code of conduct or the professor is guilty of moral turpitude -- the boundaries of which would also be specified by contract. The point is that these are not "free-speech" issues or political issues at all, but private, contractual disagreements, which should be resolved by arbitration or by the courts. The First Amendment has no bearing on these situations.

As Murray Rothbard argued in *Ethics of Liberty*, in a free society there are no free-speech rights, only property rights. Property owners may encourage or restrict speech or other forms of behavior (though they may be liable for damages if such restrictions violate some prior contractual agreement). More generally, as Rothbard put it, "not only are there no human rights which are not also property rights, but the former rights lose their absoluteness and clarity and become fuzzy and vulnerable when property rights are not used as the standard."

For this reason, the libertarian position on recent campus controversies is to fight not for free speech, but for property rights. Higher education should be privatized, taking these issues out of the political sphere. Should Charles Murray or Ann Coulter be invited to lecture? Should students be disciplined for boycotting classes? Should a professor be fired for saying the wrong thing? It's up to the owners to decide. Students can choose to attend or not, faculty can seek employment or quit, financial supporters can donate or withhold funds, all based on their free and voluntary decisions to associate with one school or another. I've written before in defense of diversity in higher education — not just the viewpoint diversity championed by groups like Heterodox Academy, but also diversity of strategies and structures. Let colleges and universities be large or small, diversified or specialized, highbrow or lowbrow, hippie or conservative, secular or religious, tolerant or intolerant — who are outsiders to judge? A thousand flowers blooming and all that.

Update: Commenter Phil Miller asks a good question: if a private school accepts federal grants and federal student loans, shouldn't it too be subject to the Bill of Rights? In other words, what is the boundary between "public" and "private" in higher education? I've raised the same issue before: elite private universities like Stanford and Chicago receive a higher percentage of their total budget from governmental sources -- mainly research grants and contracts -- than many state colleges. In the context of free speech, however, I would make the distinction based on ownership. The University of Wisconsin or South Georgia State College are state-owned, with ultimate decision authority vested in a board of regents or curators appointed by the governor. Private colleges and universities are usually chartered as nonprofit corporations (or, more recently, public benefit corporations), with residual control rights held by trustees or other officers. Even if the latter receive state funds they remain private organizations and hence not fully bound by the rules applying to government agencies and state-owned enterprises. But it is a tricky distinction. The solution, of course, is full privatization -- less Stanford and Chicago, more Grove City and Hillsdale (and TED talks, Udemy, Mises Academy, etc.).

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Here's the True Definition of a Recession — It's Not About GDP

by Frank Shostak

According to the National Bureau of Economic Research (NBER), the institution that dates the peaks and troughs of the business cycles,

A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough.[1]

In the view of the NBER dating committee, because a recession influences the economy broadly and is not confined to one sector, it makes sense to pay attention to a single best measure of aggregate economic activity, which is real GDP. The NBER dating committee views real GDP as the single best measure of aggregate economic activity.

We suspect that on the back of the NBER's much more general definition, the financial press as a shortcut introduced the popular definition of a recession as two consecutive quarters of a decline in real GDP. Also, by following the two-quarters-decline-in-real-GDP rule, economists don't need to wait for the final verdict of the NBER, which often can take many months after the recession has occurred.

Regardless of whether one adopts the broader definition of the NBER or the abbreviated version, these definitions are actually failing to do the job.

After all, the purpose of a definition is to establish the essence of the object of the investigation. Both the NBER and the popular definition do not provide an explanation of what a recession is all about. Instead they describe the various manifestations of a recession.

The Problem with Measuring GDP

Another grave problem with both the abbreviated and the NBER definitions is that recession is defined in terms of real gross domestic product (GDP), which supposedly mirrors the total of final real goods and services produced.

To calculate a total, several things must be added together. To add things together, they must have some unit in common. However, it is not possible to add refrigerators to cars and shirts to obtain the total of final goods. Since total real output cannot be defined in a meaningful way, obviously it cannot be quantified. To overcome this problem economists employ total monetary expenditure on goods, which they divide by an average price of those goods. But is the calculation of an average price possible?

Suppose two transactions are conducted. In the first transaction, one TV set is exchanged for $1,000. In the second transaction, one shirt is exchanged for $40. The price or the rate of exchange in the first transaction is $1000/1TV set. The price in the second transaction is $40/1shirt. In order to calculate the average price, we must add these two ratios and divide them by 2. However, $1000/1TV set cannot be added to $40/1shirt, implying that it is not possible to establish an average price.

On this Rothbard wrote,

> Thus, any concept of average price level involves adding or multiplying quantities of completely different units of goods, such as butter, hats, sugar, etc., and is therefore meaningless and illegitimate.[2]

Since GDP is expressed in dollar terms, which are deflated by a dubious price deflator, it is obvious that its fluctuations will be driven by the fluctuations in the amount of dollars pumped into the economy. Hence various statements by government statisticians regarding the rate of growth of the real economy are nothing more than a reflection of the fluctuations in the rate of growth of the money supply.

Now, once a recession is assessed in terms of real GDP it is not surprising that the central bank appears to be able to counter the recessionary effects that emerge. For instance, by pushing more money into the economy the central bank's actions would appear to be effective since real GDP will show a positive response to this pumping after a short time lag. (Remember that changes in real GDP reflect changes in money supply). Observe that once the economy is expressed through GDP the central bank would appear to be able to navigate the economy (i.e., GDP) by means of a suitable policy mix.

Even if one were to accept that real GDP is not a fiction and depicts the so-called real economy there is still a problem as to why recessions are of a recurrent nature. Is it possible that various shocks cause this repetitive occurrence of recessions? Surely there must be a mechanism here that gives rise to this repetitive occurrence?

The Cause of Boom-Bust Cycles

In a free, unhampered market, we could envisage that the economy would be subject to various shocks but it is difficult to envisage a phenomenon of recurrent boom-bust cycles.

According to Rothbard,

> Before the Industrial Revolution in approximately the late 18th century, there were no regularly recurring booms and depressions. There would be a sudden economic crisis whenever some king made war or confiscated the property of his subjects; but there was no sign of the peculiarly modern phenomena of general and fairly regular swings in business fortunes, of expansions and contractions.[3]

In short, the boom-bust cycle phenomenon is somehow linked to the modern world. But what is the link? Careful examination would reveal that the link is in fact the modern banking system, which is coordinated by the central bank.

The source of recessions turns out to be the alleged "protector" of the economy — the central bank itself.

Further investigation would show that the phenomenon of recessions is not about the weakness of the economy as such, but about the liquidation of various activities that sprang up on the back of the loose monetary policies of the central bank. Here is why.

A loose central bank monetary policy sets in motion an exchange of nothing for something, which amounts to a diversion of real wealth from wealth-generating activities to non-wealth-generating activities. In the process, this diversion weakens wealth generators, and this in turn weakens their ability to grow the overall pool of real wealth.

The expansion in the activities that came about based on loose monetary policy is what an economic "boom" (or false economic prosperity) is all about. Note that once the central bank's pace of monetary expansion has strengthened, irrespective of how strong and big a particular economy is, the pace of the diversion of real wealth is going to strengthen.

However, once the central bank tightens its monetary stance, this slows down the diversion of real wealth from wealth producers to non-wealth producers. Activities that sprang up on the back of the previous loose monetary policy are now getting less support from the money supply; they fall into trouble — an economic bust, or recession emerges.

Irrespective of how big and strong an economy is, a tighter monetary stance is going to undermine various uneconomic activities that sprang up on the back of the previous loose monetary policy. This means that recessions or economic busts have nothing to do with the so-called strength of an economy, improved productivity, or better inventory management by companies.

For instance, as a result of a loose monetary stance on the part of the Fed various activities emerge to accommodate the demand for goods and services of the first receivers of newly injected money. Now, even if these activities are well managed and maintain very efficient inventory control, this fact cannot be of much help once the central bank reverses its loose monetary stance. Again, these activities are the product of the loose monetary stance of the central bank. Once the stance is reversed, regardless of efficient inventory management, these activities will come under pressure and run the risk of being liquidated.

From what was said we can conclude that recessions are the liquidation of economic activities that came into being solely because of the loose monetary policy of the central bank. This whole recessionary process is set in motion when the central banks reverses its earlier loose stance.

We have established that recessions are about the liquidations of unproductive activities, but why they are recurrent? The reason for this is the central bank's ongoing policies that are aimed at fixing the unintended consequences that arise from its earlier attempts at stabilizing the so-called economy, i.e., real GDP.

On account of the time lags from changes in money to changes in prices and changes in real GDP, the central bank is forced to respond to the effects of its own previous monetary policies. These responses to the effects of past policies give rise to the fluctuations in the rate of growth of the money supply and in turn to recurrent boom-bust cycles.

Conclusions

Contrary to the accepted way of thinking, recessions — properly understood — are not negative growth in GDP for at least two consecutive quarters.

Recessions, which are set in motion by a tight monetary stance of the central bank, are about the liquidations of activities that sprang up on the back of the previous loose monetary policies. Rather than paying attention to the so-called strength of real GDP to ascertain where the economy is heading, it will be more helpful to pay attention to the rate of growth of the money supply.

By following the rate of growth of the money supply, one can ascertain the pace of damage to the real economy that central bank policies inflict. Thus the increase in the growth momentum of money should mean that the pace of wealth destruction is intensifying. Conversely, a fall in the growth momentum of money should mean that the pace of wealth destruction is weakening.

Additionally, once it is realized that so-called real economic growth, as depicted by real GDP, mirrors fluctuations in the money supply rate of growth, it becomes clear that an economic boom has nothing to do with real and sustainable economic expansion. On the contrary such a boom is about real economic destruction, since it undermines the pool of real wealth — the heart of real economic growth.

Hence despite "good GDP" data, many more individuals may find it much harder to make ends meet.

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2. Murray N.Rothbard, Man Economy and State, Nash Publishing p 734.

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The Violence in Charlottesville

by Jeffrey A. Tucker

The vast majority of people in the United States have no interest whatsoever in street battles between the alt-right (better described today in more poignant terms) and the counter-protesters. Most people have normal problems like paying bills, dealing with kids, getting health care, keeping life together under all the usual strains, and mostly want these weird people to go away. So, of course, people are shocked at scenes of young people in the streets of this picturesque town with a university founded by Thomas Jefferson screaming, "Jews will not replace us."

It's hard to see, hard to hear. But they are not going away. For some people with heads full of violent ideology, what's happened so far is not enough. They imagine that with their marches, flags, uniforms, slogans, chants, screams, and guns, they will cause history to erupt and dramatically turn to favor them over the people they hate. Indeed, what is unfolding right now, with real loss of property and life, has gone beyond politics as usual and presages something truly terrible from the past, something most of us had previously believed was unrepeatable.

What in the world causes such a thing? It's not about bad people as such. Many of the young men and women involved in this movement were raised in good homes and, under normal conditions, would never hurt anyone. What this is about is bad ideas. They crawl into the brain and cause people to imagine things that do not exist. It can be like a disease that a person doesn't even know that he or she has. It causes people to seethe with hatred for no apparent reason, to long for the extermination of people who have never done anything wrong, to imagine insane outcomes of social struggles that have zero chance of succeeding.

The Group

The implausibility of their ideas is disguised by group psychology. They hang around people who think these same things and egg each other on in shared resentments and dreams of new powers they can acquire if they act boldly, bravely, and with determination. They conjure up scapegoats (blacks, Jews, women, Antifa, gays, and a government that is supposedly giving them all privileges at their expense) and begin to believe that the only way forward is to destroy them all in some grand uprising, after which they will seize power and rule forever.

Yes, I know it sounds insane. But one thing you learn from history is that no idea is too insane to be off limits to a group infected with a longing to rule. Any means to the end will do, with the end deeply embedded in the fevered imagination of the group member who finds mission, meaning, and significance from some struggle.

The Statue Myth

Much of the media coverage about the violence in Charlottesville, Virginia report that this all began with a dispute over the fate of a statue of the Civil War Confederate general Robert E. Lee that sits downtown. The city council voted to take it down; the protesters want it to remain as a symbol of white pride and rule (which is absurd because General Lee would have been thoroughly repulsed by the ideology these people represent). In actual fact, the dispute over this statue is a complete distraction from the real motivation here.

What this really is: an explosive expression of an idea that has been brewing in a malevolent movement that has been gaining steam for very a long time. After the Second World War, most people imagined that Nazi ideology was gone from the earth and that the only real totalitarian view that remained to threaten liberty was Communism. That might have been true for a few decades, but matters began to change in the 1990s, as new violent strains of statism begin to arise.

The Deep History

For the last two years, I've written about the deep history of this violent strain, which can be described variously as Nazism, fascism, alt-right, white supremacy, white nationalism, neo-reaction, or, my preferred and more technical moniker (borrowed from Ludwig von Mises), right-Hegelianism.

People have variously wondered why I've spent so much time and energy digging through the works of people like Johann Fichte, Friedrich List, Houston Stewart Chamberlain, Thomas Carlyle, John Ruskin, Charles Davenport, Oswald Spengler, Carl Schmitt, Julius Evola, Giovanni Gentile, and so on (many of my writings on these people are here). All of these ideas existed long before Hitler and the Nazis – and caused enormous damage in the world long before the Holocaust – and they persist after them.

It's true that probably not even one of the protesters in Charlottesville have read these thinkers, much less the traditional liberal response to these rightist strain of anti-liberalism. How can they possibly be responsible?

Ideas are strangely magical, like time-traveling spiritual DNA, moving from brain to brain like a genetic mutation and just as unpredictably. Keynes was right to observe that most politicians are slaves to some defunct economist; in the same way these violent thugs are slaves to some defunct philosopher who loathed the emergence of universal freedom in the world during the 19th century and were determined to set it back.

Propagandists for Evil

At the same time, there must be some mode of transmission for ideas. The leaders of this movement serve the purpose well, but there is a deeper root. I've been very reluctant to mention what might be the most influential tract among the rise of the hard statist right in the last few decades, but given where we are with all of this, it is time. The book is *The Turner Diaries*, written by "Andrew McDonald" who was really William L. Pierce, a brilliant physicist whose mind was taken over by Nazi ideology, precisely because he was steeped in the literature above.

I do not recommend reading this book. You can't unread it. It is their roadmap. I can recall the first time I read it. I was shaken to my very core, and it was the beginning of a new realization of the task before us, to combat this horror with every bit of intellectual energy.

It is the story of a small junta of whites who set out to reverse history with a series of killings, starting with Jews, then blacks, then communists, and then, inevitably, apologists for the merchant class and libertarians (they hate us deeply too). What you learn early on here is that this movement is absolutely socialist, just in a different way from the more-famous left-wing socialists. They are not red shirts but brown shirts, so they have a different agenda. It's not about class struggle. It's about race struggle, religious struggle, gender identity struggle, national struggle.

So what happens? They rally the masses to their side with a growing amount of bloodshed, gain control of the government, set up a centrally planned socialist state, get hold of the nuclear stockpile and slaughter all non-whites in the world. Sorry for the spoiler.

The Genetic Code

Why would anyone rally behind such a ghastly book? Again, the human mind is capable of imagining terrible things, and that which we imagine to be true influences actions. Ideas, as they say, have consequences. Hence, anyone who has followed the transmission of these ideas over the last decades could see where this is heading.

What happens now? The tragedy is compounded, with a burgeoning leftist movement to counter the emerging threat from the opposite side, and a government ready to exploit the conflict between the two to crack down further on human rights and freedoms. It's the perfect storm.

Our Task

The question is: what to do now? The answer lies in the source of the problem. The huge mess began with bad ideas. The only means available – and it is the most powerful – is to fight bad ideas with good ideas.

We all need to throw ourselves into the intellectual battle most of all and as never before. What are those good ideas?

The progress of the last 500 years shows us precisely what the good ideas are: social harmony, human rights, the aspiration of universal dignity, the conviction that we can work together in mutual advantage, the market economy as a means of peace and prosperity, and, above all else, the beauty and magnificence of the idea of liberty itself.

Let us all – those who love peace, prosperity, and human flourishing for all – not despair but rather rededicate ourselves to the mission of replacing bad ideas with good ones. Our predecessors in this mission faced far worse odds and they prevailed, and they were far fewer than us. We can too, provided we think, speak, and act with courage and conviction in favor of all that is beautiful and true. This is how the left/right cycle of violence will be replaced by the highest longings of the human heart.

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This article was originally published on FEE.org. Read the original article.

Why Cryptocurrencies Will Never Be Safe Havens

by Mark Spitznagel

Every further new high in the price of Bitcoin brings ever more claims that it is destined to become the preeminent safe haven investment of the modern age — the *new gold*.

But there's no getting around the fact that Bitcoin is essentially a speculative investment in a new technology, specifically the blockchain. Think of the blockchain, very basically, as layers of independent electronic security that encapsulate a cryptocurrency and keep it frozen in time and space — like layers of amber around a fly. This is what makes a cryptocurrency "crypto."

That's not to say that the price of Bitcoin cannot make further (and further…) new highs. After all, that is what speculative bubbles do (until they don't).

Bitcoin and each new initial coin offering (ICO) should be thought of as software infrastructure innovation tools, not competing currencies. It's the amber that determines their value, not the flies. Cryptocurrencies are a very significant value-added technological innovation that calls directly into question the government monopoly over money. This insurrection against government-manipulated fiat money will only grow more pronounced as cryptocurrencies catch on as transactional fiduciary media; at that point, who will need government money? The blockchain, though still in its infancy, is a really big deal.

While governments can't control cryptocurrencies directly, why shouldn't we expect cryptocurrencies to face the same fate as what started happening to numbered Swiss bank accounts (whose secrecy remain legally enforced by Swiss law)? All local governments had to do was make it illegal to hide, and thus force law-abiding citizens to become criminals if they fail to disclose such accounts. We should expect similar anti-money laundering hygiene and taxation among the cryptocurrencies. The more electronic security layers inherent in a cryptocurrency's perceived value, the more vulnerable its price is to such an eventual decree.

Bitcoins should be regarded as assets, or really equities, not as currencies. They are each little business plans — each perceived to create future value. They are not stores-of-value, but rather volatile expectations on the future success of these business plans. But most ICOs probably don't have viable business plans; they are truly castles in the sky, relying only on momentum effects among the growing herd of crypto-investors. (The Securities and Exchange Commission is correct in looking at them as equities.) Thus, we should expect their current value to be derived by the same razor-thin equity risk premiums and bubbly growth expectations that we see throughout markets today. And we should expect that value to suffer the same fate as occurs at the end of every speculative bubble.

If you wanted to create your own private country with your own currency, no matter how safe you were from outside invaders, you'd be wise to start with some pre-existing store-of-value, such as a foreign currency, gold, or land. Otherwise, why would anyone trade for your new currency? Arbitrarily assigning a store-of-value component to a cryptocurrency, no matter how secure it is, is trying to do the same thing (except much easier than starting a new country). And somehow it's been working.

Moreover, as competing cryptocurrencies are created, whether for specific applications (such as automating contracts, for instance), these ICOs seem to have the effect of driving up all cryptocurrencies. Clearly, there is the potential for additional cryptocurrencies to bolster the transactional value of each other—perhaps even adding to the *fungibility* of all cryptocurrencies. But as various cryptocurrencies start competing with each other, they will not be additive in value. The technology, like new innovations, can, in fact, create some value from thin air. But not so any underlying store-of-value component in the cryptocurrencies. As a new cryptocurrency is assigned units of a store-of-value, those units must, by necessity, leave other stores-of-value, whether gold or another cryptocurrency. New depositories of value must siphon off the existing depositories of value. On a global scale, it is very much a *zero sum game*.

Or, as we might say, we can improve the layers of amber, but we can't create more flies.

This competition, both in the technology and the underlying store-of-value, must, by definition, constrain each specific cryptocurrency's price appreciation. Put simply, cryptocurrencies have an enormous scarcity problem. The constraints on any one cryptocurrency's supply are an enormous improvement over the lack of any constraint whatsoever on governments when it comes to printing currencies. However, unlike physical assets such as gold and silver that have unique physical attributes endowing them with monetary importance for millennia, the problem is that there is no barrier to entry for cryptocurrencies; as each new competing cryptocurrency finds success, it dilutes or inflates the universe of the others.

The store-of-value component of cryptocurrencies — which is, at a bare-minimum, a fundamental requirement for safe haven status — is a minuscule part of its value and appreciation. After all, stores of value are just that: stable and reliable holding places of value. They do not create new value, but are finite in supply and are merely intended to hold value that has already been created through savings and productive investment. To miss this point is to perpetuate the very same fallacy that global central banks blindly follow today. You simply cannot create money, or capital, from thin air (whether it be credit or a new cool cryptocurrency). Rather, it represents resources that have been created and saved for future consumption. There is simply no way around this fundamental truth.

Viewing cryptocurrencies as having safe haven status opens investors to layering more risk on their portfolios. Holding Bitcoins and other cryptocurrencies likely constitutes a bigger bet on the same central bank-driven bubble that some hope to protect themselves against. The great irony is that both the libertarian supporters of cryptocurrencies and the interventionist supporters of central bank-manipulated fiat money both fall for this very same fallacy.

Cryptocurrencies are a very important development, and an enormous step in the direction toward the decentralization of monetary power. This has enormously positive potential, and I am a big cheerleader for their success. But *caveat emptor*—thinking that we are magically creating new stores-of-value and thus a new safe haven is a profound mistake.

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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:

- Wade Borth - Fargo, North Dakota
- Glenn Zacher - Edmonton, Alberta
- Thomas Eckols - Austin, Texas
- Dennis Guy - Marianna, Florida
- Carolina Montibelli-Hajny - Tukwila, Washington

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.

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

A Disease in the Public Mind: A New Understanding of Why We Fought the Civil War by Thomas Fleming

Never Call Me a Hero: A Legendary American Dive-Bomber Pilot Remembers the Battle of Midway by N. Jack "Dusty" Kleiss

NNI's Live Seminars & Events
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Morristown, NJ - IBC Seminar *November 4, 2017*
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