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Cash Value vs. Death Benefit in Life Insurance

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In his classic work *Becoming Your Own Banker,* Nelson Nash claims that the standard approach to life insurance has things backwards. Consumers have been taught to get their desired death benefit for as little outlay as possible. Yet Nash argues that people's need for *finance* while alive is more urgent than their need for a benefit check when dead. In this context, then, Nash concludes that a consumer should buy a life insurance policy that maximizes premium payments and *minimizes* the (initial) death benefit. In this article I'll explain this seemingly counterintuitive approach, because it underlies Nash's Infinite Banking Concept (IBC).

The Conventional Approach to Life Insurance

Typically, an insurance agent will size up a potential client (let's assume he's a man) and estimate his "human life value"—how much he is worth alive, rather than dead. In this respect, the client is appraised from the point of view of his survivors; his income-generating capacity is obviously relevant, but so too is the sentimental value he provides in his role as husband and father (supposing he is married with children). Once the agent has come up with a ballpark estimate of the client's human life value, this is the amount of death benefit for which the man should be underwritten, if he wants to be "fully insured." After all, most people wouldn't take out merely a $100,000 fire insurance policy on a house that would cost $300,000 to replace; they would want to *fully* insure their home. By the same token, if it would take $800,000 to "replace" the economic support the man offers his family, then the life insurance agent will insist the man get a policy with this amount of death benefit coverage.

Incidentally, to say that the death benefit "replaces" the man obviously doesn't mean in a full *literal* sense. Yet this is no different from the case of fire insurance: If your house burns down and you lose family photos and other items of sentimental value, the check from the fire insurance company won't fully indemnify you in this case, either. Nonetheless, there is definitely a sense in which you can "fully insure" the "value" of your home with a fire insurance policy of appropriate size. By the same token, we can meaningfully speak of "human life value" while recognizing that money can't buy everything.

Once the client agrees on how much death benefit he wants to purchase, the next step—in the typical process—is to find the *cheapest* way to obtain such coverage. In other words, the client wants to obtain the desired death benefit with the smallest possible out-of-pocket contributions in the form of premium.

So far as it goes, there is nothing wrong with the above, typical approach to life insurance. Human life value *is* an incredibly important concept, and responsible individuals—especially if they are the breadwinners in a marriage and *extra* especially if they have young children—should obtain adequate death benefit coverage immediately, to the extent that others are relying upon their earning capacity. Furthermore, *given* that you are going to lock in a certain amount of death benefit coverage, you obviously will want to do so on good terms, without "overpaying" for it.

Nelson Nash Flips the Conventional Wisdom

Yet ironically, Nelson Nash's IBC flips the above priorities. IBC is implemented through life insurance—specifically, dividend-paying whole life insurance. Yet it focuses on the so-called *living benefits* of whole life, rather than the death benefit. Nash focuses on the "banking" qualities of a whole life insurance policy; these are what allow you to "become your own banker."

Not all insurance policies are created equal. Even if we consider just a whole life insurance policy, and even if we set the out-of-pocket cash flows at a given schedule (with specified dollar contributions in various years, throughout the life of the policy), there are still different ways of *structuring* the whole life policy. Depending on how the policy is designed, the policy can either start with a high death benefit and low cash value, which then grows slowly. Or, on the other end of the spectrum, the policy can start with a low death benefit and a high cash value, which grows quickly over time. To repeat, you can achieve these different outcomes—or anything in between—with the *same* out-of-pocket cashflow from the owner into the policy over the years.

If a client wants an insurance policy that takes full advantage of the "living benefits," then the policy should be designed in such a way that the cash value growth is maximized. The necessary downside of this construction is that the death benefit won't be as high as it otherwise would have been, with a policy requiring the same cashflow but enjoying lower cash value growth.

The reason such "Nelson Nash policies" or "IBC policies" favor cash growth—at the expense of (initial) death benefit—is that the size of the *policy loan* the company will offer, is limited by the cash value of the policy at that point. Since the whole rationale of IBC is to "borrow from yourself" (by taking out policy loans tied to the whole life policy), rather than borrowing from outside lenders, the constraint on implementing IBC is always the total available cash value in the whole life policy (or policies) that the individual owns.

Death Benefit Still Important, and Useful in IBC

I should stress just to avoid any confusion: Someone who implements IBC must not jeopardize the death benefit necessary to provide conventional protection for his or her dependents. In other words, just because a "Nelson Nash policy" minimizes the death benefit, doesn't mean that the death benefit is irrelevant.

In particular, many younger people who start out with a modest IBC-structured policy will *also* carry (say) a 20- or 30-year term life insurance policy. This is because if the person happens to die only a few years into the IBC process, he or she may not have accumulated enough death benefit to replace the human life value.

However, someone who implements IBC aggressively will eventually find that the death benefit becomes quite significant, replacing the term policy when it expires. The well-funded whole life policy can then provide excellent flexibility for retirement (or what Nash prefers to call "passive income") and it opens up options for estate planning because the death benefit check(s) pass income tax-free to the named beneficiaries.

The PUA Rider

The specific mechanism by which a policy can tilt toward cash value accumulation vs. (initial) death benefit is the Paid Up Additions (PUA) rider. The PUA rider is appended to a base policy, allowing the owner to make separate contributions above and beyond the contractual premium necessary to keep the base policy in force.

When the owner makes a PUA contribution, technically what's happening is that he buys a "mini" policy that is fully "paid up" (hence the name). When a life insurance policy is "paid up," it means that the owner doesn't have to put in any more money; the life insurance company is now on the hook to send the death benefit check when the insured dies (or when he reaches the age of maturity, such as 121 years).

A Simple Numerical Example

To understand how a PUA changes things, let's first walk through the logic of a base policy *without* a PUA rider. Suppose a 25-year-old woman has taken out a whole life insurance policy with a premium of $5,000 per year, and for which the contract requires premium payments throughout the entire life of the policy. In the early years, the cash value associated with the policy will rise year after year (with the $5,000 payments of the base premium), but the increase will be sluggish. However, if the woman is in decent health, she will get a nice death benefit corresponding to this outlay of annual premiums.

The reason for this pattern—an initially high death benefit but sluggish growth of cash value—is that the woman probably won't die for many years; remember, she's in good health and is opening the policy at age 25. Contractually, the young woman is on the hook for plugging in $5,000 each year she sticks around. Actuarially speaking, the insurance company expects that by the time it will have to send a death benefit check to her beneficiary, it will have received *many* payments of $5,000 from her, which will all have been rolling over earning returns from their respective moments of receipt. This is why the insurance company is willing to agree to offer a sizable death benefit (from the moment the contract starts) in exchange for her promise to send annual $5,000 payments as long as she stays alive.

Now let's think about the cash value. First of all, how is it calculated? The textbook formula says that the cash value is the actuarially expected, present discounted value of the future death benefit to be paid, minus the flow of remaining premium payments. In plainer language, the cash value is the "spot lump sum value right now" of the big death benefit payment that will come at an uncertain time, minus the "spot lump sum value right now" of the smaller premium payments that will last for an uncertain length of time.

As time passes and the woman faithfully makes her premium payments, the cash value grows. This makes sense, according to the formula we just described: With each passing year, the (uncertain) payment of the death benefit gets closer, and so its present value *increases*. In addition, the (uncertain) number of remaining premium payments to the company goes down by one, and the entire schedule of payments is shifted closer by one year, thus *decreasing* their present value. The first number gets bigger, while the second number gets smaller. The cash value is the first number minus the second number, so obviously each passing year makes the cash value go up.

Now here's the subtle but crucial point: Early on, when the woman is still in her late 20s say, these two effects exist but they're not very potent. To see the role played by the PUA, though, we just need to focus on why the *second* effect (concerning the stream of remaining premium payments) is not potent, early on. I'm going to simplify things a bit to make the math easier, but it will get the point across well enough, to simply assume that the woman will die *for sure* at age 80. That means that when she first opened the policy at age 25, the company expected it would get 55 annual installments of the $5,000 premium.

But now the woman gets through the first year; she pays her first premium and lives to see age 26. What happens to the present value of the expected string of remaining premium payments? Instead of having 55 looming payments, the company now expects it will receive only 54. The difference in the *present value* of those streams however is *much lower* than $5,000, because what's "falling out" is the very-distant $5,000 payment that was 55 years in the future (and which is now only 54 years away).

For those who are comfortable with calculations, the two different valuations are performed the following way, where r is the interest rate used to turn future dollars into present dollars:

Table 1. Why Cash Value Grows Slowly, Early On

When Woman Is…	Present Value of Remaining Premium Payments If Assume Death Occurs at Age 80
Age 25	$\$5{,}000/(1+r) + \$5{,}000/(1+r)^2 + \ldots + \$5{,}000/(1+r)^{54} + \$5{,}000/(1+r)^{55}$
Age 26	$\$5{,}000/(1+r) + \$5{,}000/(1+r)^2 + \ldots + \$5{,}000/(1+r)^{54}$

Notice in Table 1 that the two streams of remaining premium payments are identical, *except* for the last term in the top row: $\$5{,}000/(1+r)^{55}$. Bear with me; we'll soon see why this ends up being important to understanding the PUA.

To repeat, early in the base whole life policy, the passage of years doesn't make the cash value jump very much, even though the woman is paying the contractual base premium of $5,000. The contribution to the cash value coming from the *reduction* in the spot value of the remaining premium payments is very weak, early on, because the terms that are "dropping out" of the formula are heavily discounted. With our specific example, if the interest rate *r* is 5 percent, then the spot value of the remaining premium payments only drops by $\$5{,}000/(1.05)^{55} \approx \$342$.

To be clear, this $342 is not the only thing contributing to an increase in the cash value; we also have to account for the fact that the death benefit is one year closer. (Note also that we are totally ignoring the overhead costs—including agent commission—that in the real world will affect the cash value an owner is promised in the actual contract. Here we're keeping things as simple as possible by just looking at a few textbook issues.) But it is the valuations of the remaining premium payments that matter so much for the PUA rider, which is why we're focusing just on this one component of the cash value formula.

Now that we've seen what happens early in the policy, let's zoom to the end, right before the woman is expected to die:

Table 2. Why Cash Value Grows Faster, Later In the Policy

When Woman Is…	Present Value of Remaining Premium Payments If Assume Death Occurs at Age 80
Age 78	$\$5{,}000/(1+r) + \$5{,}000/(1+r)^2$
Age 79	$\$5{,}000/(1+r)$

At this point, there are far fewer premium payments left (in an actuarially expected sense, which for simplicity we are here representing by the assumption that she dies at age 80 for sure). When the woman is 78, and then makes another premium payment to carry her to age 79, the term that "drops out" is now only discounted by two years, not 55 years as was the case when she first opened the policy at age 25.

With the same interest rate of 5 percent, the change in the two streams in Table 2 is $\$5{,}000/(1.05)^2 \approx \$4{,}535$, which is about thirteen times greater than occurred in Table 1. What this illustrates is that as the woman goes from age 78 to age 79, the increase in the cash value *due to the fact that one of the premium payments has "dropped out"* is $4,535, whereas when she went from age 25 to age 26, the "dropping out" of that last premium payment only made her cash value go up by $342.

Back to the PUA Rider

We demonstrated in the previous section that if a woman aged 25 were willing to commit to a *lifetime* stream of $5,000 annual premium payments, then she would get a large death benefit, but the cash value would rise very slowly early on in the policy, and would only pick up steam years later.

In contrast, suppose instead she makes "one-off" arrangements each year with the insurance company, where she gives them $5,000 for a fully paid-up policy. In other words, rather than her $5,000 payments each year being part of a long string of contractually necessary premium payments, suppose instead each payment buys a self-contained, fully funded, "mini" policy.

There are two main implications of this new approach. First, the death benefit associated with each "mini" policy will be much lower than what the insurance company promised for the base policy. This is because with the fully funded mini policies, the woman *is not on the hook to give any more money.* (That's why the mini policies are "paid up.") The insurance company has the $5,000, and expects it can put that money to work in its portfolio until the woman dies at age 80, but that's all the incoming funds it will get *for this specific (mini) policy.* Therefore, it is obvious that the death benefit associated with this particular policy, will be much much lower than what was promised for a base whole life policy with a $5,000 premium but where the contract calls for a lifetime of premium payments.

On the other hand, the cash value of the mini policy will shoot up very quickly with that first premium payment, because it is the first *and the last* premium payment. Remember the take-away message from the previous section, with our Tables 1 and 2: The passage of a year (and the payment of a premium) contributed more to the increase in cash value, as the last *remaining* premium payment got closer and closer.

But since the mini policies are fully paid up after one premium payment, right out of the starting gate the woman only has one remaining payment to make. It's as if she's already age 78, rather than age 25, in terms of our Tables above. Her $5,000 payment toward the mini policy causes a large increase in the cash value (which starts at $0 before she's put in any money), which is much larger than what happens if she takes out a standard whole life policy with a lifetime base premium of $5,000.

What we have just described in loose, intuitive terms is how the PUA rider can supplement a traditional, base whole life policy in order to make it more suitable for IBC. For a desired *total* out-of-pocket contribution into the policy, a greater or smaller share can be earmarked for the contractual base premium, with the remainder entering in the form of a PUA contribution. The more heavily the policy tilts toward the PUA, the lower the initial death benefit but the bigger the jump in cash value year after year. On the other hand, the more heavily the policy tilts toward base premium, then the higher the initial death benefit but the smaller the jump in cash value year after year.

Conclusion

Whenever I write articles describing the mechanics of whole life insurance policies, I am forced to choose between simplicity and realism. There are many factors I left out of the analysis in the above, and even my numerical example was not quite how actuaries would break down the problem. But I hope I have given the reader at least an intuitive understanding of how the PUA rider transforms an ordinary whole life policy into one that is specially configured as an "IBC policy."

As always, these discussions highlight the importance of interested individuals finding qualified financial professionals to answer their specific questions and design insurance policies tailored to the specific circumstances of their households or businesses. This is precisely why my colleagues and I set up the IBC Practitioner's Program. The graduates are listed here: www.InfiniteBanking.org/Finder. I strongly encourage any reader interested in IBC to find someone on this list to discuss matters further.

God Is a Libertarian

by Jesús Huerta de Soto

Thank you for being here today [Fundación Rafael del Pino, Madrid, May 17, 2017]. Once again, it gives me great satisfaction and joy to be able to address you all, at (what I believe is) the Tenth Spanish Conference on Austrian Economics. Typically, my lectures cover topics related to economic theory or libertarian philosophy. Last year, I made an exception, for which I offered a detailed explanation, and I delivered a brief talk on the subject of the political landscape at the time. I believe the situation warranted it. This year, I am going to make another exception, and we will digress briefly into the realm of theology.

A few years back, Professor María Blanco, who may be here today, interviewed me for a book on the leading Spanish economists, and I stressed that in the multidisciplinary approach of the Austrian school, it is very important that we not overlook theology. Philosophy and law are quite necessary, but theology is also key, and it is an area we must explore. Today, I am going to do some research, or at least share a series of reflections on the sphere of theology and its relationship to the libertarian movement.

My first words should be of gratitude, of thanks, to Pope Francis, because he has inspired the content of these reflections. Specifically, I am referring to Pope Francis's comments on libertarians in his April 28 message to participants in the plenary session of the Pontifical Academy of Social Sciences. So, I thank Pope Francis for providing the motivation behind what I am going to say today.

I would like to add that I prepared this lecture in the shade of a pine tree, on the banks of the Mediterranean Sea, at my home in Majorca on Saturday, May 13, 2017 -- exactly one hundred years after Our Lady of Fatima first appeared to the three Portuguese shepherd children, Francisco, Jacinta, and Lucia. Incidentally, the main message of Our Lady of Fatima was that a great tragedy was going to strike the world with the Marxist Revolution, the triumph of the Communist Revolution in Russia, and that many prayers should be said for Russia. The prayers seem to have had an effect, and seventy-some years later, the Wall came down, and real socialism disappeared, though it must be said that cultural communism and Marxism are still omnipresent, even in broad areas of the Catholic Church. Therefore, allow me to dedicate my remarks today to Our Lady of Fatima, because a centennial comes around only every one hundred years.

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Well, I would like to start from a premise. Our initial premise will be that God exists. Of course, this will come as a shock to many people. Others -- believers -- will find it obvious. Still others will have their doubts. Many will be put off, especially in a group of economists, philosophers, freedom-loving people, and libertarians, like the group I am in today. However, I would ask that, at least for the sake of argument, even those who do not believe in God make an effort to imagine, for the next few minutes, that God does exist. That is the starting premise of my entire talk today.

And what do I mean by "God"? By "God," I mean the supreme, loving Creator of all the things and creatures that have been created. Elsewhere, I have developed at some length the theory that one of the most important creatures to be created is the human being, whom God created in his own image and likeness, and that if there is a point of connection between the image and likeness of God and of man, it lies precisely in creative entrepreneurial ability. The human capacity to discover, to see, and to create new things (*in-en-prehendo, prehendi, prehensum*) connects God and man. I am not going to elaborate on that theory now, since you are already familiar with it, and it is expounded in several of my papers.

Nevertheless, today I will go a step further and attempt to demonstrate that God is not only the supreme, loving Creator of all things, but also a libertarian. This is the main contention of my remarks today. So, what does it mean to be a "libertarian"? Perhaps it is idle of us to pose this question in the context of this conference. A "libertarian" is someone who loves human freedom (which is one and indivisible). Libertarians defend free enterprise, the creative capacity of human beings, and the spontaneous market order. Above all, libertarians abhor the organized, systematic coercion of those monopolistic agencies of violence we know as "states." In other writings, for instance in my article, "Classical Liberalism versus Anarchocapitalism," I have examined the reasons the state is not only unnecessary, but also highly inefficient and, more importantly, immoral, and why we must dismantle it.

So, what does it mean to say that God is a libertarian? (This is the next step.) What meaning should we attribute to this phrase or expression? It means that God, the Lord of all the universe, who has created his laws from nothing, and who therefore has absolute power over the Earth and the rest of the universe, nevertheless does not use force, but always leaves his creatures free. He gives them the freedom even to rebel against him. There are the fallen angels, for instance. These are spiritual beings who rebelled against their Creator. God leaves human beings free even to rebel against him. In this sense, human beings are more fortunate than the fallen angels, because happily, humans have been redeemed. In other words, God forgives human beings again and again, and he allows them to get up and start over.

God in three persons: God the Father, God the Son, and God the Holy Spirit. He always lets people do as they will; he lets things happen; he allows the universe, with the order he has created, to spontaneously evolve by itself. God lets do; he lets pass; the world goes on by itself. "*Laissez faire, laissez passer, le monde va de lui même*" could be the motto of our libertarian God. And this is true, even though man tests God again and again and demands that he manifest his supreme power, that he give us crystal clear, undeniable signs of his power -- and then we will believe in him. But of course, God does not fall for this, because a forced conversion, the result of a cataclysm, would be contrary to the inherent freedom which characterizes the supreme, loving Creator of all things.

At the time of Jesus, the Zealots (and the world is still full of zealots today) were crying out for the creation of an all-powerful world state, a kingdom of the Messiah, who would exercise his power and impose his will on the whole world. People asked for other signs as well. When Jesus hung, crucified, on the cross, they mocked him and said, "If you are the Son of God, come down from the cross, and then we will believe in you." But Jesus, God the Son, a libertarian, did not come down from the cross. And why did he not make fire rain down -- wreak devastation -- and thus manifest the will of the supreme Creator? Like napalm in the Vietnam War, or Donald Trump's "mother of all bombs." Even apostles as beloved by the Son of God as James and John (no less) fall into this temptation when they ask Jesus for permission to call down fire from heaven and exert God's power. I will read this passage word for word. We find it in St. Luke, chapter 9. It says, "On their way they entered a village of the Samaritans to make ready for him; but they did not receive him, because his face was set toward Jerusalem. When his disciples James and John saw it, they said, 'Lord, do you want us to command fire to come down from heaven and consume them?' But he turned and rebuked them. Then they went on to another village."[1] Why this reaction? Because God -- in this case, God the Son -- is a libertarian.

And even though he has the power and capacity to establish the best welfare state imaginable, God the Son does not get caught up in any such plan. We have the example of his best-known speech, the Sermon on the Mount, which includes the Beatitudes. There was a crowd of people, and Jesus later took pity on them because they had nothing to eat, and he performed the miracle of the Multiplication of the Loaves. They all ate and were satisfied, and they realized that Jesus was capable of feeding the whole world free of charge. It seemed to them like paradise. And what was the reaction of the people? I am afraid that, rather than internalizing the message of the Beatitudes, they were tempted by the chance to achieve, then and there, a welfare state, and they immediately wanted to appoint Jesus head of state; in short: to make him king. Let us see how the Gospel of St. John puts it (6, 14-15). It reads, "When Jesus realized that they were about to come and take him by force to make him king, he withdrew again to the mountain by himself." Why? Because God the Son is a libertarian.

And the kingdom of God "is not from this world." Jesus himself says this to a frightened official of the Roman state, who is also in charge of judging him. "My kingdom is not from this world." This may appear to mean that there are two types of kingdoms or states: the kingdoms of this world, which on their own level are legitimate (remember, "give ... to the emperor the things that are the emperor's"), and the kingdom of God, of heaven ("...and [give] to God the things that are God's"). That is the standard interpretation, which has prevailed up to now, but I believe it is utterly false from beginning to end.

When Jesus is asked the trick question about paying taxes to the emperor, he gets around it in a very intelligent way. "Show me the coin used for the tax ... Whose head is this...?" "The emperor's." "Give therefore to the emperor the things that are the emperor's, and to God the things that are God's." And he avoids problems for the time being, but at no point does he specify what is the emperor's. Maybe nothing. In fact, Jesus never paid any tax himself. The only time he had to pay a tax, he instructed St. Peter, "... Cast a hook, and take the first fish that comes up, and when you open its mouth you will find a shekel; take that and give it to them for me and for yourself" (St. Matthew 17:22-27).

I believe the correct interpretation is that the kingdom of God, which is the exact opposite of the kingdoms of this world, of states, and which never systematically uses violence and coercion, is a kingdom that has already arrived. It has been given to us free, in an act of immense mercy and love (*Deus Caritas Est*), and it should lead to the dismantling of the kingdoms, or states, of this world, because God is a libertarian, and he made man in his own image and likeness.

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But what are the origin and the nature of the states or kingdoms of this world? Without a doubt (and I am going to try to demonstrate this here this afternoon), the state is the embodiment or instrument of evil, of the devil. I will show that this is true. But first, allow me to make a brief digression on the origin of the state -- the origin of the kingdom (or kingdoms) of this world.

Perhaps the clearest explanation is found in the Old Testament, in the book of First Samuel. There we read how the kingdoms of this world of states emerged with a deliberate act of human rebellion against the kingdom of God. We will read from First Samuel, chapter 8. Up until then, the Israelites had lived in a state of semi-anarchy and had turned to a series of judges or mediators to settle their disagreements. But at a certain point, they approached Samuel and said, "Give us a king to govern us." In other words, "Give us a state." We read in First Samuel that Samuel was very displeased by this, and that he turned to God, or Yahweh, and said, "Listen, these people expect us to give them a state." And what does God, or Yahweh, answer? He literally says the following: "...They have rejected me from being king over them." That is, the state, the kingdom of this world, arose as the alternative to the kingdom of God. But God is a libertarian, and he lets people do as they will. He lets them do as they will. "You want a state? Go right ahead. But please, Samuel, before they proceed, 'solemnly warn them, and show them the ways of the king who shall reign over them.'" And Samuel, without wasting any time, called the people together and said, "So, you say you want a state? Well, 'These will be the ways of the king who will reign over you: he will take your sons and appoint them to his chariots and to be his horsemen, and to run before his chariots; and he will appoint for himself commanders of thousands and commanders of fifties, and some to plow his ground and to reap his harvest, and to make his implements of war and the equipment of his chariots. He will take your daughters to be perfumers and cooks and bakers. He [the state] will take the best of your fields and vineyards and olive orchards and give them to his servants. He will take the tenth of your grain and of your vineyards and give it to his officers and to his servants [just like now]. He will take your menservants and maidservants, and the best of your cattle and your asses, and put them to his work. He will take the tenth of your flocks, and you shall be his slaves.'" Well, as you can see, the warning of Yahweh is abundantly clear. (And yet, we have the nerve to complain.)

Anyway, the state is the main instrument of evil. In the state, the evil one wields his power. Who is the evil one? The devil, the fallen angel. What is the goal of the evil one? To destroy the work of God. To destroy the spontaneous order of the universe, which includes the spontaneous order of the market. That is his goal. Who is our enemy? Who is the enemy of libertarians? The devil. We are up against the devil (we have our work cut out for us), and one of his chief manifestations is the state. He is hard but not impossible to overcome, because we have an ally who is much more powerful than the devil. There is no doubt that the state is the embodiment of the devil. But I am not the one who says it. There would be no merit in that. It would be an argument from authority. "Professor Huerta de Soto says God exists and the state is the embodiment of the devil." An argument from authority. I am not the one who says this. No. St. Luke the Evangelist says it, and the Pope Emeritus Benedict XVI, Joseph Ratzinger, really drives it home in his very remarkable biography titled *Jesus de Nazareth*. In the first to be published of the three volumes, there is a sublime chapter in which the author comments on each of the temptations God the Son (that is, Jesus) was subjected to.

And in St. Luke, chapter 4, starting with verse 5, we find a description of the third temptation, the gravest and the strongest. The gospel reads, "And the devil took him up, and showed him all the kingdoms [that is, all the states] of the world in a moment of time, and said to him, 'To you I will give all this authority and their glory; [and the following words of the devil, recorded by the evangelist, are key:] for it has been delivered to me, and I give it to whom I will. If you, then, will worship me, it shall all be yours.'" Thus, according to the devil himself, all of the states on the Earth are under his command and depend on him. So, we can understand why they inflict so much harm. What does Jesus answer? Jesus says, "It is written, 'You shall worship the Lord your God, and him only shall you serve.'" Why is that? Because God is a libertarian.

Ratzinger himself (What a pope! What a brilliant mind!) warns that the main threat of our time lies precisely in the deification of human reason and in the attempt, through pseudo-scientific so-called social engineering and the state, and led by governments, authorities and experts, to create nirvana, an earthly paradise, here and now in the world. Humanity's great problem is that we have turned the state into a golden calf everyone worships. The state is the true Antichrist. That is where humanity's problem lies.

Let us see how Ratzinger explains it in *Jesus of Nazareth*, because he does so very precisely. I will read his words. He writes (and I quote), "The tempter is not so crude as to suggest to us directly that we should worship the devil. He merely suggests that we ... choose to give priority to a planned and thoroughly organized world..." He later mentions Soloviev as follows: "Soloviev attributes to the Antichrist a book entitled *The Open Way to World Peace and Welfare*. This book becomes something of a new Bible, whose real message is the worship of well-being and rational planning." Benedict XVI returns to this idea in his encyclical *Spe Salvi*, in paragraph 30, where he strongly condemns (quote), "...the hope of creating a perfect world ... thanks to scientific knowledge and to scientifically based politics..." Ratzinger also gave a wonderful speech before the German parliament, in which he said [quoting St. Augustine], "Without justice – what else is the State but a great band of robbers?" And you and I know that both today and historically, and both quantitatively and qualitatively, the main violators and enemies of justice (and law) have been precisely the state and the government. To put it another way, the phrase "a state governed by the rule of law" is a contradiction in terms. There is no greater enemy of Law (with a capital L) than the state. We are daily witnesses to this, from the time we get up to the time we go to bed. Well, if the chief enemy of Law is the state, and Ratzinger himself has already made clear that a government or state which is not subject to the rule of law is actually a band of robbers, the conclusion of the syllogism is crystal clear: states and governments are bands of robbers.

Incidentally, Ratzinger makes another very important point. He says, "Do you know when the church got off track? It is quite simple: the moment it became the official state church." He says it got off track not as you might think, with the Edict of Thessalonica, which made it the official church of the empire, but before that, with Constantine. The Edict of Milan -- religious freedom, the year three hundred thirteen. But a few years later, in the year three hundred twenty-one, what did Constantine do? He declared Sunday an official day of rest throughout the empire, in honor of Christians. And several years after that, the Council of Nicea. "Okay, the bishops can assemble and arrive at consensuses and agreements, but these will be valid only if I, Constantine, approve them." After that, the Catholic Church was lost. It became an institution in cahoots with the state. Now we can understand many historical atrocities, including the Crusades and genocidal institutions like the Inquisition, since the church in many instances became an instrument of evil as the official state church. That is why, according to Ratzinger, it is vital to separate the two institutions.

However, from an intellectual standpoint, the greatest harm lies elsewhere. For centuries and centuries, the Church has been the official state church, and as a result, a legion of intellectuals, of theologians, have devoted all of their efforts to attempting to justify the unjustifiable; namely, that the state is legitimate. Let us hope that the Church changes direction, and that starting now, it overcomes its Stockholm syndrome and begins to denounce the state, rather than the spontaneous market order.

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I believe I have established that out of love, God gives us his kingdom; that God is a creator and a libertarian; and that the main threat to the kingdom of God lies in the deification of human reason, *The Fatal Conceit*, the title of Hayek's last work. And specifically, it lies in the states, or kingdoms, of this world, which embody systematic evil. Then, what should be the guiding theme of our daily actions? That is obvious.

We must devote all of our intellectual and physical efforts and energy, all of our being, to the dismantling of states and the advancement of God's spontaneous order based on love and voluntary cooperation. Logically, this involves promoting the market, private property, the entrepreneurial economy, free enterprise, the spontaneous market order. As a necessary (in any case) but not a sufficient condition, human beings must also have the guidance of ethics and morality. Still, what most disciplines the wicked is the market. For the market obliges us, in a context of voluntary cooperation, to engage in conversation with others, to try to discover their needs and peacefully satisfy them. It obliges us to preserve a reputation, if we want people to keep doing business with us in the future. This explains why the great Montesquieu arrived at the conclusion that "wherever there is commerce, there we meet with agreeable manners." For as Pope Saint John Paul II very clearly stated, in the market, man collaborates "in a progressively expanding chain of solidarity." This chain reaches the remotest corners of human life.

Actually, I have been reviewing the statements John Paul II makes on the church's social doctrine in *Centesimus Annus*, and they really are spectacular. Let us recall a few. John Paul II writes the following (and I quote): "When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied." Therefore, profit should be sought not out of greed, but as a sign of doing good to others. Pope John Paul II also writes, "...The principle task of the State is to guarantee [private property, among other essentials]..." Bravo, John Paul! "...to guarantee [individual freedom and private property, among other essentials] so that those who work and produce can enjoy the fruits of their labours and thus feel encouraged to work efficiently and honestly." He also says, "...Where self-interest is violently suppressed [by the state -- who else?], it is replaced by a burdensome system of bureaucratic control which dries up the wellsprings of initiative and creativity." This happens to us every day in the oppressive environment in which we live.

He specifically criticizes the welfare state. He says that "a community of a higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions..." He affirms that "...needs are best understood and satisfied by people who are closest to them and who act as neighbours to those in need." He criticizes the welfare state as follows: "By intervening directly and depriving society of its responsibility, the Social Assistance State leads to a loss of human energies and an inordinate increase of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending." And what is the just price? What does John Paul II consider the just price? We often hear that "People must pay the just wage." But what is the just price? The Holy Father responds that it is the one "mutually agreed upon through free bargaining." Those are the very words of Pope Saint John Paul II.

And what conclusion do I come to? I come to the conclusion that a Catholic must be a libertarian on social issues. I go even further. A Catholic must support private-property anarchy. Indeed, we have just heard a defense of private property. True economic science shows that the only way a stateless system could possibly work is through the spontaneous market order and the private provision of all public goods. That is the highest stage of civilization conceivable–the embodiment of the kingdom of God, to the greatest extent humanly possible, here on Earth. Private-property anarchy; or if you prefer, we can call it "libertarian capitalism," though that term frightens John Paul II here. He reflects on the word "capitalism" and basically says, "Well, since everything negative has, for decades and decades, been described as 'capitalism,' I propose we use another term. Which one? 'Business economy,' 'market economy,' or 'free economy.'" But why? Let us call things by their names. Libertarian capitalism; private-property anarchy; or the best expression of all: anarchocapitalism. From a scientific standpoint, this expression is far more accurate than, for instance, "self-government," or other terms which lead to confusion and are truly mellifluous. Let us be proud of being private-property anarchists -- anarchocapitalists. In fact, God is a libertarian, and he is on our side.

Etymologically, according to the *Dictionary of the Spanish Royal Academy*, "anarchy" means "the absence of all public authority." The expression is perfect. Everything would be private, and there would be no public authority. *Archein* comes from Greek. It means "rule." *Archein* -- rule, public authority. "Anarchy": no public authority. Another term that can be used is *akrata*, from the Greek *kratos*, which means "absolute power." This reminds me of the famous anecdote of Hayek's declaring himself an enemy of democracy. *Demos - kratos*. He says "*Kratos* means 'absolute power,' and I am against all absolute power. Absolute power, even if backed by the people, is not viable." So, Hayek proposes another name -- *isonomy* or *demarchy*. You have all studied this already, in the three volumes of *Law, Legislation, and Liberty*. No absolute power -- *akrasia, akrata*. Let us be proud to be anarchocapitalists and *akratas*.

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I will conclude my remarks today with some verses by a great Spanish libertarian, a great anarchist who was born in Seville -- Melchor Rodríguez. I do not know if you have heard of him. Melchor Rodríguez García. He was briefly the Mayor of Madrid, the last under the Spanish Republic. Together with Colonel Casado and General Cipriano Mera, two anarchist comrades, he staged a coup d'état against the communist forces and those of President Negrín (who was Stalin's puppet) to end the civil war, and they were the ones who handed Madrid over to the forces of General Franco.

Melchor Rodríguez is also known as the "Red Angel." And why is he known as the "Red Angel"? Because he saved over twelve thousand, five hundred prisoners (in the jails of Madrid) from being murdered or lynched. The illegal removal of prisoners in Madrid, which ended in the Paracuellos executions, and for which the communist Santiago Carrillo was directly responsible (by act or omission), was immediately halted the moment Melchor Rodríguez was appointed General Inspector of Prisons by the Minister of Justice, García Oliver, a fellow anarchist. Immediately. Rodríguez García arrived, took up his post, and said, "It is prohibited for anyone to leave between seven in the evening and seven in the morning without my direct authorization by telephone." The executions stopped.

It goes without saying that there followed a huge smear campaign against Melchor Rodríguez, who was a leading figure in the anarchosyndicalist movement in Spain. He was accused of being a traitor to the republic, but he responded, "You are the traitors; you have stained with blood the noble doctrine of anarchy." And he added, "One may die for an ideal, but never kill for one." Perhaps the most sublime example of dying for an ideal is provided by God the Son -- Jesus. He died for the ideal of redeeming all mankind. There is no doubt that he was a victim of reasons of state and of a political plot. A victim of state violence… Melchor Rodríguez was asked, "Why have you done this? Why do you defend the fifth columnists we have in jail? Are you perhaps a Catholic sympathizer?" Melchor Rodríguez responded, "I did it not because I am Catholic, but because I am a libertarian," unaware that Catholic and libertarian may have been two sides of the same coin. In addition, Melchor Rodríguez García, though he belonged to the Iberian Anarchist Federation, also belonged to a group called "Los Libertos," who defended these pacifist and freedom-based views.

Four months later, he was dismissed from his post and appointed (note what a tough job) General Inspector of Cemeteries in Madrid. With his team, he occupied the palace of the Marquis de Viana, here in Madrid. He began by making an inventory of all the contents of the palace. And notice how respectful of private property this anarchosyndicalist was. When the owner recovered the palace after the war, he expressly told authorities that not one single silver teaspoon was missing. The Red Angel, Melchor Rodríguez, did not have the chance to get an education. He was born into an extremely poor family, and he made a living as a bullfighter, but that career was cut short. He devoted himself body and soul to promoting the anarchist ideal, but from this freedom perspective I am talking about. When the war was over, he was tried and condemned to death by Franco, but fortunately, and thanks to two thousand, five hundred signatures of people who were saved through his good offices, including General Muñoz Grandes, he was pardoned. He spent a few years in jail and returned to civilian life. And he lived out the rest of his days, until the year 1972, in which he died, practicing the noble profession of insurance agent for the company Adriática, which makes him doubly likable to me. And I have no doubt that if Melchor Rodríguez had had the opportunity to receive an education, and he were here with us today, the Red Angel would be an anarchocapitalist.

And I conclude with the verses he wrote. I quote:

"Anarchy means:
Beauty, love, poetry
Equality, fraternity
Feeling, freedom
Culture, art, harmony
Reason, the supreme guide,
Science, the exalted truth
Life, nobility, goodness
Satisfaction, joy
All of this is anarchy.
And anarchy, humanity."

[1] All Bible quotations are taken from the *New Revised Standard Version Catholic Edition.*

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This Is What a True Liberty-Loving Politician Would Look Like

by Richard M. Ebeling

In modern democracies, political cycles never end. As soon as one election is over, those seeking office are already running for the next election. Having recently attended a public forum of state-level candidates looking to the 2018 election, I wondered what a real friend of freedom might say if he was offering himself for such a political office.

Liberty Rhetoric, But Interventionist Policies

At a luncheon event several candidates running in the forthcoming Republican Party primary in South Carolina made their pitch as to why they should be their party's nominees for state legislative offices in the next general election. They answered questions submitted by attendees at the lunch and made opening and closing statements about who they were and what they stood for.

Not too surprisingly they all, in their respective ways, said they were "pro-business," advocated lower taxes, a freer enterprise market environment, greater transparency, and more accountability for those in power in the state capital.

Why did each say they were running for elected office? They all had been in business but now wanted to "give back" and "serve" their communities.

What were major themes in many of the questions directed at them? South Carolina is a growing state where international corporations are opening more manufacturing facilities, and, as more people move to the Palmetto State, it has an increasing population to match. Those who submitted questions wanted to know what the candidates would do, if elected, to improve and widen road infrastructure to reduce increasing congestion, and how they would "manage" growth in the state? And what might they do in terms of taxes? There were other topics and issues, but these especially stood out.

With slight variations, they all called for making sure that gasoline taxes were used for road improvement and repair, and not diverted to other spending directions; and that the money should be efficiently managed to see the best road repair results were forthcoming.

On growth and development, only one believed in slowing growth; the others wanted more economic growth within the state. But while some were more explicit the others, they all clearly believed that growth and development needed to be harnessed within "reasonable" zoning and planning rules and regulations.

Also, they all stated that taxes had to be kept under control, even "cut" in mostly unspecified ways. But none of them offered any program or platform for actually reducing spending and repealing programs to lower the overall burden of government on the everyday lives of South Carolinians.

What If a Candidate Believed in Liberty?

Most of the candidates highlighted their respective careers and accomplishments in business. This gave them the experience and clear thinking to see that things would run better in the state legislature, if they were fortunate enough to earn the voters' support on Election Day.

What motivated each one of them, they emphasized, was a "selfless" desire to "sacrifice" their own private interests to "serve others" in the community. They wanted to "give back" to the society.

I left the luncheon thinking that if these are the voices claiming to speak for freedom and free enterprise, it demonstrates just what an uphill battle friends of liberty face at every level of government.

It also got me thinking about what might a friend of liberty offer in such a contest if he chose to run for political office. The following is an imaginary candidate's statement to a room of local voters:

"My fellow citizens, let me start off by saying that unlike my worthy opponents who are appealing for your support in this primary race, I have no interest in sacrificing my own self-interest for others. I'm running for this legislative office to get Big Government at the state level off my back as much as possible, and to establish a strictly limited government here in South Carolina.

"What I'm proposing to do, if you vote for me, is champion a legislative agenda that will free us all from governmental control, so each of us may peacefully and honestly pursue our personal interests to the greatest extent possible that is consistent with respect for our respective individual rights to life, liberty and honestly acquired property.

"Our state is burdened with corrupt, insider crony capitalism in which a small group of powerful members of the state legislature manipulate taxes and the regulatory system to maintain their own political power through favors, privileges, and government contracts to those who supply them with campaign contributions and votes on Election Day. In addition, there have been enough instances of publicized scandals to know how some of these elected 'public servants' have enriched themselves by direct and indirect political plunder."

A Platform for Liberty

"Among the central elements of my political platform are the following:

"1. Abolish the state income tax and the corporate tax. I propose moving to narrowly defined user fees and a low sales tax, to fund what I propose to be a much smaller government in the state of South Carolina.

"2. In response to those who may ask how these much smaller tax revenues will be sufficient to fund expenditures at the state level, I propose to abolish all the regulatory agencies that in any way restrict or prohibit the operations of private enterprises within the boundaries of South Carolina. The number of people employed by the state government would be radically downsized. And I will advocate reducing the frequency and the time during which the state legislature meets for business.

Basic and traditional laws against force and fraud will easily and far more effectively serve to handle all legitimate claims and accusations of violations of person or property or contract that may come before state courts rather than city or county judicial jurisdictions.

Privatizing Roads and Ending Land Use Controls

"3. This reversal of state intervention and control will include the privatization of the state highway and road system. Market incentives and profit opportunities will work wonders for the building, maintaining, and policing of roads, bridges, tunnels, and traffic flows far better than government monopoly ownership and control. My slogan on this issue will be, 'Time to Exit from Government Roads.'

"Have you ever noticed how quickly and cost-efficiently private development companies build access roads and parking areas of significant length and size? Compare that to the seemingly unending months and years that it takes a government to build or repair a road or highway, even when the project only consists of a mile or two of construction, and all a cost-inefficient expense to the taxpayers.

"Local townships or cities may choose to continue providing a government monopoly on roads, bridges, and parking areas if that is the choice of the local voting residents. But I propose that this will no longer be a state governmental matter.

"4. I will advocate that zoning and land use laws at the municipal, county and state levels be repealed. The market should determine where cities and manufacturing areas develop and evolve. It is time to end the hubris of "urban planners" who arrogantly presume to know how and where people should live, work, and associate in everyday life. My slogan on this issue is 'Down with Land Use Regulation – Private Property Power to the People.'

Privatizing Education

"5. I will propose the abolition of compulsory state schooling in South Carolina from kindergarten through high school. Like in many other parts of the United States, parents often complain about the quality and value of the education their children are forced to submit to under mandatory government schooling.

"Nothing works as well as private enterprise competition to improve the quality and lowering the cost of anything offered to the buying public. This will be no less true if applied to educating South Carolina's young.

"The private sector may be relied upon through charity and philanthropy for financial assistance to attend good schools.

"Government funding and control over higher education should be ended, as well. State-owned and financed colleges and universities also should be privatized. These institutions of higher learning would have to demonstrate to parents and students that the education offered was worth the cost of tuition. Those tuition schedules would have to become competitive to attract freshmen and transfer students.

"Also, this will likely end most of the "politically correct" ideological nonsense present on many campuses. The market test of winning education consumers' business will soon determine how many parents and students are willing to pay to support collectivist ideology in the classroom and thuggish student behavior around the campus. My slogan on this issue is: 'Free Education – From Government Control.'

Government Out of Health Care

"6. I will also propose and strongly push for ending all state involvement in health care and medical insurance. It is time to say 'No' to the drift towards socialized medicine.

"Freeing markets in the area of healthcare and insurance will, like in education, set competitive market forces to work to start offering reasonably priced medical care, far better than anything experienced under Medicare, Medicaid, or floundering ObamaCare. My slogan for this issue is: 'Private Health Care – The Best Medicine for What Ails Us.'

Abolishing Victimless Crime Laws

"7. I will also propose the repeal of all state-level laws that prohibit or restrict the use of drugs. Few things have been as harmful to people's lives and communities, including in South Carolina, than the 'War on Drugs.' It has ruined tens of thousands of lives by criminalizing activity that is no concern of the government: the personal and private choice as to what to smoke, eat, or otherwise consume.

"The War on Drugs has created and fostered black markets and a gangland culture of violence. It has cultivated a psychology of hypocrisy and disrespect for law, as many people in our society disregard laws concerning personal conduct that they consider to be no business of the state.

"It has also brought about corruption of the legal system. The war on drugs has incarcerated thousands of people who then have to bear the mark of "convict" for the rest of their lives, even after getting out of prison, which makes living a normal and productive life more difficult than it needs to be.

State's Rights Reborn For Liberty

"South Carolina bears a good part of the historical responsibility for discrediting the traditional idea of 'state's rights' under the U.S. Constitution. This concept was misused in the years before the Civil War to justify the attempt to maintain a slave society.

"But let me suggest that South Carolina can now do something to redeem this important element of constitutional federalism. Instead of using state's rights to deny freedom, let South Carolina use state's rights to resurrect the idea of individual liberty by freeing citizens from the spider's web of corrupting interventions and prohibitions that now represent far too much of what South Carolina's government imposes upon its citizens.

"The American tradition of federalism includes the notion of decentralized and divided government that allows for local 'experimentation' with different public policies, rather than imposing uncertain and possibly damaging policies on everyone in the country as a whole. It allows citizens in different parts of the United States to 'vote with their feet' if they find state-level and local government policies unattractive in one place while finding other states' policies more attractive.

"Let South Carolina become a beacon of liberty within the United States by practicing and exemplifying a free society that serves as a model for the rest of America, and indeed the world. Let us show our fellow Americans what a society of freedom and prosperity can really look like.

"This is the platform and agenda I offer when you come to vote on Election Day."

Alas, few candidates for state legislatures anywhere in the United States offer such a vision of liberty.

Indeed, that so few in our society understand – and the many that would oppose – such a political agenda for governmental downsizing shows just how far we have moved in America away from a classical liberal conception of freedom.

Our task as friends of freedom, therefore, still remains one of education, to win over enough Americans so that someday a political program for a freer society will win the support of a majority of our fellow citizens.

Richard M. Ebeling

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Murray Rothbard and the Deflation Bogey

by William L. Anderson

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The Paul Reveres of the economics profession are riding their horses, warning Americans, "Deflation is coming! Deflation is coming!" From Paul Krugman to Joseph Gagnon to the various mainstream news publications, the message is the same — the government needs to induce inflation now, or else the economy will sink further into the Slew of Despond and unemployment will increase.

A recent *U.S. News* article declared,

> When the price of cars or sweaters or iPods declines, it's a break for consumers and a welcome sign that economic productivity is improving. That helps drive up living standards. But when the price of everything drops, it's an alarming development that portends stagnation.

The consumer price index, which measures inflation, declines every now and then, usually when there's a big drop in the price of volatile goods like energy or food. But there hasn't been sustained deflation in America since the early 1930s. Now, we may be on the verge of yet another unnerving economic adventure. Inflation over the last 12 months has been a scant 1.1 percent, which is below the level most economists deem optimal. And so far this year, inflation on a monthly basis has been negative as often as it's been positive. The odds are growing that low inflation could become deflation — with some economists worried that it has already started to happen.

The article continues,

> Falling prices cut into revenue at firms that build things and provide services, so they need to cut costs to remain profitable. That usually leads to layoffs and pay cuts. When people bring home less money, they invariably feel worse off and buy less. So demand for products falls further, forcing even deeper price cuts to entice consumers. Breaking the cycle becomes a destructive game of chicken between companies and consumers, with neither willing to take the first step.
>
> But it is not just the journalists who are sounding the alarm. Gagnon writes,
>
> it is now apparent that deflation is a more serious risk for the US economy than inflation. The latest data show overall declines in consumer and producer prices. Even after excluding the volatile food and energy components, core inflation has trended well below the 2-percent level that central banks view as optimal for economic growth and that the Fed has adopted as its goal.

Unfortunately, all of these warnings fail to note what Frédéric Bastiat once wrote about what is seen, and what is *not seen*. All of the antideflation/pro-inflation writings (and that includes everything Paul Krugman currently is putting out) operate solely upon the *initial effects* both of inflation and deflation. We know that in the early stages of inflation, economic activity picks up, as the boom begins. Later, as Austrian economists have noted time and again, the boom is *unsustainable*. The earlier economic gains are seen to be illusory as the crisis begins, and ultimately the economy sinks into recession.

The pro-inflation writings of the current class of economic "experts" demonstrate a great misunderstanding of the role of money in the economy. In its most crude form, this view is based upon the belief that an addition of money to an economy is an addition of wealth itself, although I doubt seriously that either Gagnon or Krugman would admit such a thing.

There are some education issues here, the most important being an explanation of what really happens during a period of deflation — the entire period — as opposed to how most economists (especially Keynesians) and journalists, not to mention nearly everyone else, explains it.

The important thing that most people do not understand is that inflation and deflation have a profound effect upon the factors of production. Furthermore, people don't understand that during the course of either an inflationary period or deflationary period, the adjustments of the factors is continuous, not static, and the early stages of either situation are not permanent.

When we think of rising or falling prices, generally we are referring to *consumer* prices, and certainly they are affected by inflation and deflation. However, that is only part of the equation. Because so much mainstream economic analysis is done either with factor prices as a "given" or done with the assumption that factors are *homogeneous*, the most important effects of inflation and deflation often are not recognized by "professional" economists or the general public.

Rothbard's Analysis

One economist who did not make the error of overlooking the effects of monetary changes on factors was Murray N. Rothbard, and his classic *Man, Economy, and State* deals with these issues in great detail. Obviously, a short article like this cannot give justice to all of Rothbard's explanations, so I strongly recommend that you sit down with this book and read it in its entirety.

In this article, however, I will point out why Rothbard's explanations of inflation and deflation are more complete and more accurate than what we see in the mainstream today. First, Rothbard takes on inflation and its effects on the economy. He writes,

> Credit expansion has, of course, the same effect as any sort of inflation: prices tend to rise as the money supply increases. Like any inflation, it is a process of redistribution, whereby the inflators, and the part of the economy selling to them, gain at the expense of those who come last in line in the spending process. This is the charm of inflation — for the beneficiaries — and the reason why it has been so popular, particularly since modern banking processes have camouflaged its significance for those losers who are far removed from banking operations. The gains to the inflators are visible and dramatic; the losses to others hidden and unseen, but just as effective for all that. Just as half the economy are taxpayers and half tax-consumers, so half the economy are inflation-payers and the rest inflation-consumers.
>
> Most of these gains and losses will be "short-run" or "one-shot"; they will occur during the process of inflation, but will cease after the new monetary equilibrium is reached. The inflators make their gains, but after the new money supply has been diffused throughout the economy, the inflationary gains and losses are ended.

Indeed, that is precisely why so many people who have benefitted from inflation are likely to call for another round. As the political and monetary authorities continue to inflate, Rothbard notes that the following things happen, things that seemingly are invisible to economists not trained to see inflation's effects upon the factors:

> Inflation also changes the market's consumption/investment ratio. Superficially, it seems that credit expansion greatly increases capital, for the new money enters the market as equivalent to new savings for lending. Since the new "bank money" is apparently added to the supply of savings on the credit market, businesses can now borrow at a lower rate of interest; hence inflationary credit expansion seems to offer the ideal escape from time preference, as well as an inexhaustible fount of added capital.

Likewise, this economic activity will seem profitable at first, drawing more firms into an industry. Rothbard continues,

> Conversely, there will be a deficiency of investment elsewhere. Thus, the error distorts the market's system of allocating resources and reduces its effectiveness in satisfying the consumer. The error will also be greatest in those firms with a greater proportion of capital equipment to product, and similar distorting effects will take place through excessive investment in heavily "capitalized" industries, offset by underinvestment elsewhere.

At this point, the crisis is inevitable and only can be stopped when the malinvestments themselves are stopped. Unfortunately, as we have seen, people in these industries (especially if they are politically well-connected, as we saw in the General Motors/Chrysler and Wall Street debacles and bailouts) are often able to convince authorities to continue to prop up these malinvestments by taking the resources *away from* the relatively healthy firms and individuals. In other words, they often are successful in continuing the transfer, not by inflation per se, but by more overt means of direct expropriation of property.

That is where we are today, and we can see the results. However, there really is a cure, even if people like Gagnon and Krugman cannot see it — deflation. Once again, Rothbard's clearheaded analysis leads the way.

First, Rothbard points out that deflation is a *secondary* development; that is, it comes after the initial malinvestments crises and is an *effect*, not a *cause*, of the downturn. He writes,

> After the crisis arrives and the depression begins, various secondary developments often occur. In particular, for reasons that will be discussed further below, the crisis is often marked not only by a *halt* to credit expansion, but by an actual deflation — a contraction in the supply of money. The *deflation* causes a further decline in prices. Any increase in the demand for money will speed up adjustment to the lower prices. Furthermore, when deflation takes place first on the loan market, i.e., as *credit contraction* by the banks — and this is almost always the case — this will have the beneficial

> effect of speeding up the depression-adjustment process.

Most people, including the majority of economists, make their error in the failure to see that the initial effects are not permanent, provided the government and the monetary authorities permit these adjustments to occur. Just as inflation has a very real and harmful effect upon the relative values of factors of production, deflation also has an effect on the factors, but the effect over time is to return those factors to their proper proportional values, according to consumer preferences.

To put it another way, the economy right now needs deflation, yet all of the public voices are shouting that what we really need is for the economy to take another "hair of the dog." Rothbard explains,

> Just as inflation is generally popular for its narcotic effect, deflation is always highly unpopular for the opposite reason. The contraction of money is visible; the benefits to those whose buying prices fall first and who lose money last remain hidden. And the illusory accounting losses of deflation make businesses believe that their losses are greater, or profits smaller, than they actually are, and this will aggravate business pessimism.
>
> It is true that deflation takes from one group and gives to another, as does inflation. Yet not only does credit contraction speed recovery and counteract the distortions of the boom, but it also, in a broad sense, takes away from the original coercive gainers and benefits the original coerced losers. While this will certainly not be true in every case, in the broad sense much the same groups will benefit and lose, but in reverse order from that of the redistributive effects of credit expansion. Fixed-income groups, widows and orphans, will gain, and businesses and owners of original factors previously reaping gains from inflation will lose. The longer the inflation has continued, of course, the less the same individuals will be compensated.
>
> Some may object that deflation "causes" unemployment. However, as we have seen above, deflation can lead to continuing unemployment only if the government or the unions keep wage rates above the discounted marginal value products of labor. If wage rates are allowed to fall freely, no continuing unemployment will occur.

However, today's Keynesians (and other so-called free-market mainstream economists) claim that this supposed downward spiral goes on forever, until the economy is mired in long-term depression. Not so, argues Rothbard.

> Finally, deflationary credit contraction is, necessarily, severely limited. Whereas credit can expand … virtually to infinity, circulating credit can contract only as far down as the *total amount of specie in circulation*. In short, its maximum possible limit is the eradication of all previous credit expansion.

In other words, contra the current set of "experts," this economy really needs a strong bout of deflation to eradicate the rest of the malinvestments and to permit the economy to have a real recovery. Unfortunately, we have seen the authorities run the other way, trying to inflate (calling it a "stimulus") and then watching the rates of unemployment increase and confidence decrease.

Right now, the Austrians seem to be the economic version of Cassandra, predicting the future and giving sound advice, only to be rejected by most academic economists and certainly the politicians. Krugman last year demanded that the government "stop the pain" via inflation and dramatic increases in government spending.

Unfortunately, more doses of inflation will not stop the pain, at least any longer, and the more the government inflates and recklessly spends, the worse the pain will be. The very "cure" of inflation will be what makes the economy sicker. However, if we would be willing to experience the real economic pain just a little longer, a real recovery would be around the corner. In fact, had the authorities more than two years ago agreed to stop the foolishness of promoting inflation and malinvestments, we would be in recovery now.

Unfortunately, there is going to be no recovery, at least for a long time. Deflation is the answer, but few are listening. Rothbard understood this fact intimately. Those who reject his wise counsel will live to regret it.

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Nelson's Favorite Quotes

"It is hard, if not impossible, to remove by argument the traits that have long since been incorporated in the character." - Aristotle

"The state is the true Antichrist. That is where humanity's problem lie." - Jesús Huerta de Soto

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

Morristown, NJ - IBC Seminar *November 4, 2017*
Hear Nelson Nash, Dr Robert Murphy and Carlos Lara live in this 6-hour seminar.
For Registration information contact:

- Tom O'Connell, 973-394-0623 tjoconnell@internationalfinancial.com
- or Lyneah J. Madrid, 505-819-8477 lyneah@alanbleckercpa.com
- or Alan Blecker, 914-413-1793, 201-962-7173 Alan@alanbleckercpa.com

Birmingham, AL - IBC Seminar February 10, 2018
Hear Nelson Nash, Dr. Robert Murphy and Carlos Lara live in this 6-hour seminar.
For Registration information follow this Link

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

The Knowledge Illusion: Why We Never Think Alone by Steven Sloman, Philip Fernbach

America's Great Game: The CIA's Secret Arabists and the Shaping of the Modern Middle East by Hugh Wilford

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:

- Robert Zuniga - Davidson, North Carolina
- John Montoya - Dublin, California
- Jim Kindred - Saint George, Utah
- David Lukas - North Little Rock, Arkansas
- Bruce Wehner - St Louis, Missouri
- Kenneth Lester - Smyrna, Georgia
- Don Hooser - Kailua Kona, Hawaii
- Jason Henderson - Logan, Utah
- Mark Lumia - Lady Lake, Florida
- Diane Burga - Sherwood Park, Alberta
- Patrick Eddins - Sunset Hills (St Louis) Missouri
- Glen Akin Jr - Lubbock, Texas
- Nicolas Kosko - Louisville, Kentucky
- Karen Powell - Atlanta, Georgia
- Donald Turnbull - Pickering, Ontario
- John Stewart - Salt Lake City, Utah

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.