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# BANKNOTES

NELSON NASH MONTHLY NEWSLETTER

## “Is Life Insurance a Good Investment Now?”

### Part 2 of 2

by Robert P. Murphy

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

In the May 2017 issue of the LMR, I wrote the first part of this series. I began to tackle a common objection that Carlos and I get, when we talk to crowds familiar with Austrian economics. (Notice the quotation marks around the title of the article: These words are coming from the public, not from me.) Specifically, people wondered how Carlos and I could be in favor of the Infinite Banking Concept (IBC), after we had systematically explained that the Federal Reserve’s actions since 2008 had set the U.S. economy up for another crash, and also threatened the U.S. dollar. In such an environment, why in the world would somebody want to load up on a dollar-denominated asset like life insurance?

In that first article, I spent time *framing* the issue properly. It’s important for our readers to understand exactly what Carlos and I are saying, and the very question—“Is life insurance a good investment right now?”—skews the discussion. In this, the second article, I’ll review some of the main points regarding the framing.

After that, I will highlight the most recent statistics on the life insurance industry, to show why it is in relatively good shape (compared to many other sectors) and should be adequately prepared to serve its role in the broader plan that Carlos and I have explained to our readers.

#### Review from the First Article: Clarifying Our Perspective

First and most important: Nelson Nash’s IBC is not about “investing in life insurance,” the way other financial people might tell you to “invest in real estate” or “invest in Bitcoin.” On the contrary, IBC is about “becoming your own banker.” IBC is a *process*, and the *platform* by which you implement IBC is a dividend-paying Whole Life insurance policy. *That’s* why we spend so much time discussing life insurance. You need to understand the basic mechanics of a Whole Life policy, and in particular how cash surrender values and policy loans work, just so you feel comfortable in using one or more of these devices as a major pillar in your financial plan.

#### IN THIS MONTH’S ISSUE:

- “Is Life Insurance a Good Investment Right Now?” Part 2 of 2
- It’s More Important to Be American than to Buy American
- Why the Pledge of Allegiance Is Un-American
- Feeling Grateful for Gratitude
- There’s No Such Thing as ‘the Will of the People’
- Parents Should Be Free to Choose Safer Schools
- The Difference Between Austrians and Everyone Else — In One Easy Chart



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If you're a typical reader, just about all of your dollar-denominated income and expenditures flow through the commercial banking system. Nelson Nash is simply recommending that you set up an *alternative warehouse* for your wealth. This is a great idea in general, but it's particularly urgent now, when Carlos and I think that our banking system is vulnerable to another crisis. (To be clear, Carlos and I are warning about the condition of the economy based on our own understanding of central banking and Austrian business cycle theory. Nelson Nash is not responsible for our views or strategy on this broader topic.)

If you have not yet implemented IBC in your personal life, we urge you to investigate sooner rather than later. Start by listening to episodes 17 and 18 of the Lara-Murphy Show (exact links provided in the endnotes to this article).<sup>1</sup>

## Carlos and Bob's Three-Pronged Strategy

To continue with my review from last time, recall that Carlos and I produced a video in September 2016 entitled, "How to Weather the Coming Financial Storms." If you didn't watch it, you can still find it featured at our main page: [www.Lara-Murphy.com](http://www.Lara-Murphy.com). (If you are reading this article long after its original publication, check the endnotes for a permanent location for the video.)<sup>2</sup>

After explaining our economic views, we recommended a three-pronged strategy:

1. Obtain a month's worth (meaning how much you would have to spend to maintain your basic emergency needs) in actual currency on hand, in case the commercial banking system seizes up and you can't use the ATM or write checks.
2. Obtain many months' worth of physical gold and/or silver, in case the dollar crashes and you need an inflation-proof hedge to tide you over until your sources of income can at least partially adjust to the new reality.
3. Start an IBC policy, so that your dollar denominated cashflows are segregated from the conventional banking system.

To be sure, there are many nuances to fully appreciate our simple recommendations, but the above list is a good summary. My point in reviewing the three prongs for this article is to remind you that *we handle the threat of (price) inflation by encouraging an accumulation of the precious metals*. So it's not an adequate rejection of IBC to say, "Well gee whiz, I thought you Austrian types were warning about a dollar crash?"

Even if the dollar takes a beating and (say) falls 50 percent against other major currencies, Americans are still going to use dollars when they go to Walmart or when they log into their online bank account to pay their electric bill. You are still going to want your own cashflow management system in the vehicle of an IBC-structured Whole Life insurance policy.

Now that I've reviewed the role that an IBC policy (or policies) plays in the overall strategy that Carlos and I developed, let's analyze the underlying strength of the life insurance sector. After all, it does no good to be holding life insurance policies with hundreds of thousands of dollars in "cash surrender value," if the insurer goes belly up and can't make good on its liabilities.

So how confident should we be, that the life insurers will stay standing if another economic crisis hits? That's the question I seek to answer in the remainder of this article.

## Exter's Pyramid

In Figure 1, I reproduce the pyramid made famous by John Exter.

During his career, Exter worked for the Federal Reserve and also for commercial banks. He studied historical financial panics and concluded that during a crisis, investors rush to *liquidity*.

In Figure 1, the top of the pyramid represents the assets—such as real estate and municipal bonds—that have low liquidity and hence high risk, in the event of a crisis. If there is major uncertainty, investors will try to unload these assets and move down the pyramid.

**Figure 1. Exter's Pyramid of Collapsing Values**



Generally speaking, actual currency (Federal Reserve notes in the U.S.) is the most liquid of all assets. However, in the event of a currency collapse—and we are probably witnessing such an event in real-time in Venezuela—people no longer want to hold even the “money” as issued by the government. In such terrible circumstances, people flock to the *market's* money—gold—as the ultimate safe haven and asset of last resort.

Look again at Figure 1, but this time have in mind the three-pronged strategy that Carlos and I recommended. Notice that the tip of the pyramid is gold, which is one component of our plan. Moving up to the yellow region, we see actual currency—another component of our plan.

Finally, moving up another segment into the orange region, we see government bonds and corporate bonds. This is the third component of our strategy, because holding a large Whole Life insurance policy is effectively holding indirect claims on a portfolio of government and (investment-grade) corporate bonds, as I detail in the next section.

### **The Relative Strength of the Insurance Sector**

In this section, I will summarize the most recent report on the life insurance sector's financial position, according to the American Council of Life Insurers (ACLI) 2016 Fact Book. (This report is available online,<sup>3</sup> and note that the data in this report only go up through 2015.)

Although the data won't be as recent, those interested in this topic should read previous *LMR* articles analyzing various indicators of the insurance industry's reliability. For example, consult the April 2012, August 2012, January 2013, April 2013, May 2014, October 2014, May 2016, and May 2017 issues of the *LMR* to see articles from either Carlos or me, on this topic.

### **The “General Account” vs. the “Separate Account”**

With all of the preliminaries out of the way, let's proceed to document some of the key facts concerning the financial position of the life insurers. Note that throughout this article, I will be focusing on what's called their general account, which refers to the assets the life insurers hold in order to “back up” their in-force policies. The assets held in the *general account* are the means by which the insurance companies can afford to pay out death benefit claims when insured people die.

In contrast, the *separate account* holds the assets related to special products that serve as investment pass-through vehicles, such as variable annuities or Variable Universal Life (VUL) insurance policies

Nelson Nash *strongly* insists that it only makes sense to implement IBC using a dividend-paying **Whole Life** insurance policy, ideally issued by a mutual company (rather than a stock company). Since a life insurer's general account holds the assets that “back up” the traditional life insurance products (including Whole Life), that's the relevant metric for our purposes in this article. For someone practicing IBC, it doesn't matter if the stocks held by a life insurance company in the separate account crash, because that will simply affect the returns to the owners of VUL policies and the like. The people practicing IBC will be

unaffected, because the assets “backing up” their cash values are kept distinct, both in the internal accounting and also quite literally in terms of regulatory requirements.

**Basic Facts of the Life Insurers' Financial Position, for 2015**

At the end of 2015, the U.S. life insurance industry had 616 stock companies, 110 mutuals (and hybrids such as mutual holding companies), and 81 fraternal

organizations. There was a total of \$20.8 trillion in face value coverage in force, with \$649 billion in total premiums paid. (Stock companies had issued \$14.0 trillion of this coverage, while mutuals were responsible for \$6.2 trillion.) Stock companies held total assets of \$4.8 trillion, while mutuals held \$1.5 trillion.<sup>4</sup>

(For newcomers, note that in any given year, only a small portion of the outstanding death benefit

**Table 1. Distribution of Life Insurer Assets in General Account, 2015 (millions)**

<b>Asset Type</b>	<b>Market Value (year end)</b>	<b>% of Total Assets</b>
<b>BONDS</b>		
U.S. government securities	\$349,507	8.7%
Foreign gov. securities	77,432	1.9
Corporate bonds	1,957,032	48.4
Mortgage-backed securities	449,748	11.1
<i>Total long-term bonds</i>	2,833,719	70.1
<b>STOCKS</b>	90,452	2.2
<b>MORTGAGES</b>		
Farm	17,947	0.4
Residential	13,632	0.3
Commercial	383,275	9.5
<i>Total mortgages</i>	414,854	10.3
<b>POLICY LOANS</b>	129,688	3.2
Short-term investments	60,043	1.5
Cash and equivalents	46,285	1.1
<b>TOTAL</b>	<b>\$4,039,968</b>	<b>100%</b>

**SOURCE: ACLI, 2016 Fact Book, Table 2.1 (p. 11)**

coverage will be claimed, since most people who have life insurance aren't going to die in that particular year. So it is not alarming that the total market value of life insurer assets is only a fraction of the total outstanding face value of their policies. In fact, the life insurers actually hold a substantial cushion to cover their actuarially expected death benefit claims, and then some.)

As the data in Table 1 reveal, at this level of granularity the life insurance industry is in a fairly defensible position, vis-à-vis Exter's pyramid. Fully 48.4 percent of the general account assets consist of corporate bonds, an additional 8.7 percent are U.S. government bonds, 3.2 percent are policy loans (which are literally the safest investment possible for a life insurance company, since it guarantees the collateral itself), and another 2.6 percent are short-term assets including cash. Thus I would say some 63 percent of the general account assets would be classified as very liquid, possessing moderate to low risk in the event of another financial crisis.<sup>5</sup>

To be sure, a major crisis could knock out even Fortune 500 companies, causing them to default on their bonds, and if tax receipts collapse while requests for food stamps and other assistance skyrocket, even Uncle Sam might default. Even so, in terms of holding a collection of assets that will likely yield a modest return with as little risk as possible, the life insurers' general account is pretty balanced.

## What About Interest Rate Risk?

An obvious concern in our present environment is that a rapid rise in interest rates might cause devastating losses to institutional bondholders. Remember that if interest rates go up, the market value of a bond goes down, and the longer the maturity of the bond (or the higher the "duration"), the more sensitive it is to this interest rate risk.

Strictly speaking, a life insurance company is not a "bond fund" of the type managed by a conservative mutual fund. Remember, the ultimate purpose of a life insurance company is to pay death benefit claims when an insured party dies. If its actuaries

and investment officers do their jobs properly, the life insurance company will choose its fixed-income assets in order to *match its liabilities*.

For example, suppose the Acme Life Co. knew for certain that in the year 2025, it would pay out a total of \$100 million in death benefit claims. In order to cover itself, Acme would want to be holding right now bonds that would mature into \$100 million by 2025. So long as the issuer of these bonds didn't default, and assuming Acme could meet its cashflow needs over time and thus hold the bonds to maturity, it *wouldn't matter* what happened to interest rates in the interim.

To be sure, if interest rates spiked in this scenario, then the market value of Acme's bonds would go down. But at the same time, the "present value" of the actuarially expected death benefit claims for 2025 would also go down, when the accountants plugged in the higher interest rates into the formulas. Therefore the fall in the market value of Acme's Assets would be matched by a fall in its Liabilities, leaving the equity in the company unchanged. In particular, Acme would still be able to meet its contractual obligations to the beneficiaries named in its policies, because (by construction) the bonds it holds will mature into at least \$100 million, in time to pay the death benefit claims.

Thus we see that *if the life insurers engage in perfect maturity matching*, then they have nothing to fear from rising interest rates. However, we might worry that in practice the life insurers can't be *completely* matched in terms of asset-liability maturities. In that context, it's reassuring to see the following data in Table 2.

As Table 2 demonstrates, the life insurers have a smooth mix of bond durations. If short-term rates spike, about a third of their total bond portfolio matures within five years, so they should be able to roll over into the higher yields without too much pain. It's true that the roughly 21 percent of very long maturities would take a beating, but again I remind the reader that these were acquired in

**Table 2. Distribution by Remaining Maturities of Life Insurer Bonds in General Account, Year's End 2015**

	<b>1 year or less</b>	<b>1-5 years</b>	<b>5-10 years</b>	<b>10-20 years</b>	<b>&gt; 20 years</b>
Government	10.2%	19.1	18.2	24.8	27.7
Corporate	7.7%	26.2	34.4	13.0	18.7
Combined	8.3%	24.5	30.6	15.8	20.8

**SOURCE: ACLI, 2016 Fact Book, Table 2.4 (p. 15)**

order to fund the long-term liabilities represented by outstanding policies. By its very nature, a life insurance company needs to have long-lived assets so that it can confidently make promises to its clients.

While I'm discussing the bond portfolio, it's also worth noting that in 2015, 48 percent of general account private bonds were classified as "Class 1," while another 42 percent were "Class 2." These two classes together constitute "investment grade" bonds. So earlier, when we pointed out that almost *half* of the life insurers' general account consisted of corporate bonds, it's important to realize that 90 percent of these are *high-quality* corporate bonds.

**A Trouble Spot**

To show that I'm not merely doing a whitewash or suffering from confirmation bias, let me disclose one area of concern. As many of you probably noticed when you looked at Table 1, the life insurers hold some \$450 billion— a bit more than 11 percent—of their general account assets in the form of mortgage-backed securities. Now for context, remember that the amount of corporate bonds is more than *four times* this amount, but even so, it troubles me that the life insurers have such a large exposure to these derivative assets.

In fairness, not all mortgage-backed securities (MBS) are created equal. In *theory*, a properly designed mortgage-backed security is safer than a

conventional mortgage, because it ostensibly spreads the risk of default out among hundreds or thousands of mortgages, covering a wide range of locations.

Yet as we know all too well, the alleged safety of mortgage-backed securities did not hold up in 2007 and 2008. Since Carlos and I think the American financial markets have repeated the same types of mistakes that led to the 2008 crisis, we cannot ignore the MBS sitting on life insurer balance sheets. In particular, in just last month's issue, Carlos wrote an article talking about the Fed's desires to unload its MBS, and the possible regulatory means by which the feds would induce private institutions to absorb more of these assets than they really want to hold.

**Conclusion**

Naturally, someone practicing IBC is first and foremost concerned with the financial health of the *specific company* that has issued the policy or policies. Use the list of previous **LMR** articles (which I gave earlier in this article) to learn how you can go about researching companies for the maximum amount of due diligence.

Yet if we look at the life insurance industry as a whole, in general it has behaved fairly conservatively. As part of the three-pronged strategy that Carlos and I outlined in our 2016 video, "How to Weather the Coming Financial Storms," the IBC component—which addresses your need to manage cashflows denominated in dollars—should hold up in

all but the most extreme scenarios.

For maximum protection, of course, people following our guidelines would also obtain holdings of actual currency as well as physical possession of gold and/or silver.

Carlos and I are both Christians, meaning that our ultimate security does not rest on material things. But to the extent that you want to be a wise steward of the resources entrusted to you, we recommend that you review our very defensive strategy to help ensure that you don't get financially wiped out by the coming storms.

## References

1. If you're new to IBC, listen to episodes 17 and 18 of our podcast, available at: <https://lara-murphy.com/podcast/episode-17-guide-starting-ibc-part-1/> and <https://lara-murphy.com/podcast/episode-18-guide-starting-ibc-part-2/>.
2. Our video, "How to Weather the Coming Financial Storms" is available at: <https://lara-murphy.com/video0916/>.
3. Data obtained from ACLI's Life Insurers Fact Book: 2016, available at: <https://www.acli.com/-/media/ACLI/Files/Fact-Books-Public/2016LIFactBook.ashx?la=en>.
4. ACLI, pp. 2-3.
5. A purist might insist that we include "listed stocks" in our list of moderate-risk assets according to the Exter pyramid, and this is correct, if we are just using pure liquidity as our guide. However, since Carlos and I think that the stock market has been blown up by the various rounds of QE, it would be inconsistent for me to praise the life insurers' holdings of corporate equities as a moderately safe investment.

## It's More Important to Be American than to Buy American

It makes no more sense to inflict "Buy American" protectionism on yourself than it does to endorse it when it's imposed on you by law.

by Lawrence W. Reed

Last week I posted on my Facebook page that I purchased a new car, a Toyota RAV4. Someone then commented, "Should have bought American." I responded as follows:

I think it's more important to BE American than to BUY American. BEING American means exercising the liberty of choice in purchasing goods and services. The fact that somebody lives in Flint, Michigan doesn't entitle him to my patronage. I am no one's slave.

I wondered later, "From where does he get his coffee and bananas? From Milwaukee?"

The two principal arguments against the nativist "Buy American" idea are 1) moral and 2) economic. My post expressed the essence of the first. More on that in a moment.

### The Economic Argument

The economic argument goes like this: When I choose what I regard as the best option for my money, I don't hurt the economy; I help it, even if a local seller is deprived of my business. How? My satisfaction level is highest when I'm free to make my own purchasing decisions, and I am, after all, part of "the economy," am I not? An "economy" is nothing more than the myriad of exchanges that allow each of us to improve our level of satisfaction; in our own personal estimations, we trade so as to be better off once we've done it.

If I save some money because the foreign option is cheapest, then I have savings left over that I might very well employ in the purchase of other products, quite possibly locally-made ones. And because my choice intensifies the impact of foreign competition, it will likely spur the local producers to cut costs,

improve their products, or provide better service. They might even convince local, state, and federal governments to create a more business-friendly environment by reducing onerous taxes or dumb regulations.

For all I know, the Toyota RAV4 might be made in the US. I really don't care. I do know that when I purchase a car that might be made overseas, I get a car and the foreigner gets American dollars. If that's where everything ended, both the American economy and Lawrence Reed are richer by one car. The foreigner is one car poorer, but he now possesses a potential claim against American goods or services in the form of dollars.

If the foreigner never does anything with those dollars—even burns them, let's say—who's better off? I have a car and the foreigner has pieces of paper with pictures of American politicians on them. But of course, that's never the end of it. The foreigner uses those dollars, sooner or later, one way or the other. He may buy American goods, services, real estate, stocks, bonds, Treasury notes, or other financial instruments. Or he may sell the dollars and buy, say, Euros with them. In that case, the former Euro-holder now can use them. Those dollars may traverse the globe before they ever come back as a claim against something made in America, but that's ultimately what happens.

It doesn't follow that I've "hurt" a local seller simply because I didn't buy from him. Lots of people didn't buy from him, including those who didn't buy a competing product from a foreigner either. That local seller probably never bought a lecture or a book from me, though I'm sure he's paid to hear a lecture and purchased a book from somebody at one time or another. I'd be foolish and presumptuous to resent his choices to patronize others instead of me.

Bottom line? It makes no more sense to inflict "Buy American" protectionism on yourself than it does to endorse it when it's imposed on you by law. See my previous article, "The Case Against Protectionism." John Stossel also offered some good economic arguments in this article, "Why 'Buy American' is a

Dumb Idea."

## The Moral Argument

However, it's the moral argument against "Buy American" that I find the most compelling. It's rooted in the fundamental principles of liberty. That should mean a lot because, without liberty, life would be unbearable (and *unAmerican* too).

The moral argument goes like this: Buying a good or service is a voluntary, peaceful, mutually-beneficial, life-enhancing activity of consenting adults. No one's rights to life or property are violated by the mere act of exchange. It shouldn't matter what languages the traders speak, the political or geographic borders they live behind, or what color their skins may be.

If there are any legitimate exceptions to this rule, they bear an extraordinary burden of proof (some might conjure up a war-time scenario, for instance) before we do violence to the rights of individuals to better themselves through trade. In any event, simply a desire to ensure the local guy gets the business because of where he lives is no justifiable exception. That would be nothing more than an arbitrary cancellation of one man's eternal rights for the temporary, material gain of another based on residence.

The world is full of people who want to tell others what to buy and where to buy it. It always has been. One of the reasons America historically stands apart as an exceptional country is that we protect and respect the free, nonviolent choices of our citizens (though I admit we once did a better job of this than we do today). We cajole, we persuade, we argue—but in the end, we don't compel or intimidate others into imitating our personal desires. If you can't convince your neighbor that he should buy from you, then thank him for his consideration, part in peace, and try again next time. You are not entitled to his bank account.

This is, among many other things, what it means to be an American.

So the next time someone suggests you're a bad



guy because you bought something from his foreign competitor, tell him you believe it's more important to be American than to buy American.

Lawrence W. Reed is president of the Foundation for Economic Education and author of *Real Heroes: Incredible True Stories of Courage, Character, and Conviction* and *Excuse Me, Professor: Challenging the Myths of Progressivism*. Follow on Twitter and Like on Facebook.

## Why the Pledge of Allegiance Is Un-American

The "one nation, indivisible" referred to in the pledge is not only unconstitutional, it's contrary to the entire idea of the America the Founders sought to create.

by Tom Mullen

An Atlanta, Georgia, charter school announced last week its intention to discontinue the practice of having students stand and recite the Pledge of Allegiance during its schoolwide morning meetings at the beginning of each school day, opting to allow students to recite the pledge in their classrooms instead. Predictably, conservatives were immediately triggered by this "anti-American" decision, prompting the school to reverse its decision shortly after.

The uproar over periodic resistance to reciting the pledge typically originates with Constitution-waving, Tea Party conservatives. Ironically, the pledge itself is not only un-American but antithetical to the most important principle underpinning the Constitution as originally ratified.

Admittedly, the superficial criticism that no independent, free-thinking individual would pledge allegiance to a flag isn't the strongest argument, although the precise words of the pledge are "and to the republic for which it stands." So, taking the pledge at its word, one is pledging allegiance both to the flag and the republic. And let's face it, standing and pledging allegiance to anything is a little creepy. But, then again, it was written by a socialist.

But why nitpick?

### "One Nation"

It's really what comes next that contradicts both of the republic's founding documents. "One nation, indivisible" is the precise opposite of the spirit of both the Declaration of Independence and the Constitution ("under God" wasn't added until the 1950s).

The government in Washington, D.C., is called "the federal government." A federal government governs a federation, not a nation. And the one persistent point of contention throughout the constitutional convention of 1787 and the ratifying conventions which followed it was fear the government created by the Constitution would become a national government rather than a federal one. Both the *Federalist Papers* and the Bill of Rights were written primarily to address this concern of the people of New York and the states in general, respectively.

Moreover, the whole reason for delegating specific powers to the federal government and reserving the rest to the states or people was to ensure there would not be "one nation," but rather a federation of self-governing republics which delegated a few powers to the federal government and otherwise reserved the rest for themselves.

By the way, the Bill of Rights as originally written applied only to the federal government and not to the states. Sorry, liberals, but the First Amendment doesn't guarantee a "separation of church and state" within the states. It was written for the opposite reason, to protect the existing state religions of the time from the federal government establishing a national one and thereby invalidating them.

And sorry, conservatives, the Second Amendment wasn't written to keep states from banning guns. Quite the opposite. It was written to reserve the power to ban guns to the states. That's why most states, even those established after the Bill of Rights was ratified, have clauses in their own constitutions protecting the right to keep and bear arms. They understood the Second Amendment applied only to



For years Nelson Nash has taught how to become your own banker, using the Infinite Concept (IBC). Now, David Stearns, President of IBC, opens the Seminar and sets the stage as Robert P. Murphy, Ph.D economist, and businessman L. Carlos Lara, authors of the books *The Case For IBC* and *How Privatized Banking Really Works* present.

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the federal government, not the states.

If there is one thing that is clear from all of the above, the Constitution did not establish “one nation.” In fact, the states only agreed to ratify it after being repeatedly promised the United States would be no such thing, allowing the states to govern themselves in radically different ways, at their discretion.

## "Indivisible"

Then, there's “indivisible.” One would think a federation born by its constituent states seceding from the nation to which they formerly belonged would make the point obvious enough. But the Declaration makes it explicit:

That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness.

It would be impossible to exercise that right—that duty, as the Declaration later calls it—if the republic were indivisible. The strictest constructionists of the time didn't consider the nation indivisible. Thomas Jefferson didn't threaten to send troops to New England when some of its states considered seceding upon his election. Quite the opposite. And in an 1804 letter to Joseph Priestly, he deemed a potential split in the union between “Atlantic and Mississippi confederacies” not only possible but “not very important to the happiness of either part.”

The people advocating “one nation, indivisible” in those days were big government Federalists like Hamilton, whose proposals to remake the United States into precisely that were flatly rejected in 1787.

Proponents of absolute, national rule like to quip this question was “settled” by the American Civil War. That's like saying Polish independence was “settled” by Germany and the Soviet Union in 1939.

In fact, it is precisely the trend towards “one nation” that has caused American politics to become so

rancorous, to the point of boiling over into violence, over the course of the last several decades. This continent is inhabited by a multitude of very different cultures, which can coexist peacefully if left to govern themselves. But as the “federal” government increasingly seeks to impose a one-size-fits-all legal framework over people who never agreed to give it that power, the resistance is going to get more and more strident. If there is any chance to achieve peace among America's warring factions, a return to a more truly federal system is likely the only way.

Getting rid of the un-American pledge to the imaginary nation would be a good, symbolic start.

Tom Mullen is the author of *Where Do Conservatives and Liberals Come From? And What Ever Happened to Life, Liberty and the Pursuit of Happiness?* and *A Return to Common Sense: Reawakening Liberty in the Inhabitants of America*. For more information and more of Tom's writing, visit [www.tommullen.net](http://www.tommullen.net).

## Feeling Grateful for Gratitude

by Lawrence W. Reed

Tuesday, July 31, 2018

With a few paragraphs in an email message, a lady named Wynne Wages really made my day last Wednesday (July 25, 2018). Her simple but profoundly thoughtful gesture reminded me of just how important it can be to let someone know you did something that made a difference, large or small.

Ms. Wages generously gave me permission to reproduce her email verbatim. Here it is:

Dear Dr. Reed:

In June 2015, I sat beside you at the Broadway musical, “Amazing Grace.” You gave me your card and I tucked it away. My oldest two children and I were in the city before going to visit West Point and back down to Queens to meet our church for a mission trip.

Our oldest son is now beginning his sophomore year

at West Point and our oldest daughter is a rising junior at Auburn High School. Anna Louise wants to go to The King's College in NYC and major in Politics, Philosophy and Economics. With that in mind, I pulled out your business card and did a little research on FEE. She is currently attending the FEE Leadership in Action Seminar at Emory University. She is learning so much and having a wonderful time.

I just wanted to let you know how one interaction at a short-lived Broadway musical has trickled down... three years later! Thank you for that.

Sincerely,

Wynne Wages

Wynne's daughter Anna Louise, by the way, loved the FEE seminar to which her mom referred.

While there, she recorded a short video about her experience, for which all of us at FEE are deeply appreciative.

How often do we pause and think about expressing gratitude? Probably not enough. In an essay about the young Holocaust-era diarist Anne Frank, I explained that recent scientific evidence corroborates the benefits of a grateful spirit. It's more than just uplifting to the person receiving it; it's also mentally, emotionally, and even physically rewarding to the person who exhibits it.

"Research shows," I wrote, "that gratitude is an indispensable key to happiness (the more of it you can muster, the happier you'll be) and that happiness adds up to nine years to life expectancy."

Over the past 40 years, I've spent a great many hours thanking people for their support of liberty in general and of organizations I've worked for in particular, such as the Center for Market Alternatives in Idaho, the Mackinac Center for Public Policy in Michigan, and—for the past decade—the Foundation for Economic Education here in Atlanta. I've expressed that gratitude by email, by phone call, by letter, and verbally in person. I never get tired of it because I know it's uplifting to both the recipient and me.

To Mrs. Wages and her daughter, I reiterate my

gratitude for your thoughtfulness. You prompted me to take this opportunity to make a larger point that I hope everyone who loves liberty will note.

Perhaps in no small measure, the success of our movement may be greater if we all seize those moments to pat a friend or an ally on the back and say, "Thanks. You made a difference. Keep it up."

It may seem like such a little thing, but expressing gratitude is a bigger deal than most people realize.

The author and ever-quotable Robert Brault put it well when he wrote, "Enjoy the little things, for one day you may look back and realize they were the big things."

## There's No Such Thing as 'the Will of the People'

Each unique individual has a will, but the group does not.

by Donald J. Boudreaux

I'll soon turn 60 years old and can attest to the truth of the adage that "With age comes wisdom"—at least more wisdom than is available in one's youth. I can attest also that those of us in or beyond our 7th decade feel authorized to share this wisdom with others, even when others have no desire to receive it. And so I share.

One insight that has grown increasingly keen as I've aged is that humanity is far more diverse than at first it seems. Although there's an undeniable human nature at the foundation of our common humanity, each individual builds upon this foundation an edifice of his or her own distinct personality. This edifice consists of unique preferences, passions, perspectives, hopes, anxieties, and things-held-sacred. And there are as many different personalities as there are individuals.

These differences are ignored whenever we make statements about group preferences, such as "Americans want greater access to health care." Does your neighbor want the exact quantum of additional health care that you want? Is she willing

to pay the same price you are for this additional care? And is it likely that the particular kinds of additional health care that she most wants—say, obstetrics and dermatology—are identical to the kinds that you want?

Because the answer to these questions is “no,” declaring that “Americans want greater access to health care” raises many more questions than it answers. This reality, in turn, means that dangers lurk when declarations such as this one prompt government to make policies.

### **Voting Doesn't Solve This Problem**

A common response to such skepticism of government action is that the “correct” mix of policy details is discovered by the democratic process.

How unwise.

Forget that, as experience shows, government policy-making is often driven by interest-group pressures rather than by “the will of the people.” Instead, recognize that there’s no such thing as “the will of the people.”

Suppose that you prefer to have 1,000 fewer of your tax dollars spent on health care in order to have 1,000 more spent on national defense, while I have the opposite preference. What’s the correct policy? What’s the “will” of the two of us collectively? There is no obviously correct answer.

Now add your cousin to our small group. Suppose that he prefers to have 10 fewer of his dollars spent on health care and 10 more spent on defense. Suppose also that we three vote on the matter. It seems that there will at least be a majority preference to decrease health care spending and to increase defense spending. But maybe not. You want defense spending to rise by \$1,000 while your cousin wants it to rise by only \$10. If on the ballot is a proposal to transfer \$500 in spending from health care to defense, you might think this amount to be too small, or your cousin might think it to be too big. Thus, one or both of you might vote against the measure.

So I ask again: What’s the will of this group?

The answer is that such a will doesn’t exist. Each of these three unique individuals has a will, but the group does not. And if a group of only three people has no collective will, surely a group of 325 million people has no such will.

Wisdom, therefore, counsels us to beware of calls to replace individual decision-making with group decision-making.

Donald J. Boudreaux is a senior fellow with the F.A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics at the Mercatus Center at George Mason University, a Mercatus Center Board Member, and a professor of economics and former economics-department chair at George Mason University.

## **Parents Should Be Free to Choose Safer Schools**

When given the opportunity to make choices about which school their child attends, parents are quite competent.

by Kerry McDonald

As back-to-school time approaches, parents are bracing for school-related trauma. The threat of bullying, violence, school shootings, and mental health maladies looms large as a new school year emerges. A 2018 PDK poll found that one-third of parents are concerned about their child’s safety at school, a sharp jump in recent years. And it’s not just peer harassment that worries parents. The Miami-Herald reported last month that an experienced teacher who was named “teacher of the year” this year in Florida, was caught on video calling a kindergartener a “loser.”

Some parents are fed up. They want options other than a mandatory, assigned district school.

For families who can choose them, private schools offer a safer learning environment than conventional public schools. A new study recently published in the Journal of School Choice found that private schools are much safer than public schools. Study authors

M. Danish Shakeel of Harvard University and Corey DeAngelis of the Cato Center for Educational Freedom analyzed a large data set from the most recent Schools and Staffing Survey of school principals across the country. Even after controlling for school type and size, geography, student and teacher demographics, and student-teacher ratio, the authors revealed statistically significant safety benefits for private school students over public school ones.

Voucher programs and other school choice mechanisms can help to make private schools more accessible to more families, granting an exit from an assigned district school to those who want it. Vouchers redistribute to families some or all of the taxpayer money allocated to their local school district, allowing parents to use those funds at a private school of their choice. School vouchers were popularized by Milton Friedman, the Nobel Prize-winning economist who saw their potential in loosening the government-controlled monopoly on education. He wrote:

Given, as at present, that parents can send their children to government schools with out special payment, very few can or will send them to other schools unless they too are subsidized.

Critics of school choice argue that parents are incapable of making good choices for their children's education. This arrogance justifies denying school choice to parents and forcing them to accept their district assignment. Opponents cite reports, like this one released by the U.S. Department of Education last spring, showing that voucher recipients may have lower scores on standardized tests than their peers in public schools. This particular report looked at recipients of the D.C. Opportunity Scholarship Program that has been available exclusively to low-income recipients in the District of Columbia since 2004. While math scores were slightly lower for the voucher recipients, the report shows that parents were quite satisfied with the private school their children attended. Most crucially, the report shows that voucher parents felt their children were safe in school.

It's also important to note that while test scores of voucher students may be lower, other U.S. Department of Education data show that voucher recipients have significantly higher high school graduation rates than their public school peers.

When given the opportunity to make choices about which school their child attends, parents are quite competent. It's true that they may value qualities like their child's safety and graduation prospects over exam results, but is that such a bad thing? When it comes to protecting a child's well-being, parents usually know best.

Reprinted from Intellectual Takeout

Kerry McDonald (@kerry\_edu) 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. Kerry is the author of the forthcoming book, *Unschooling: Raising Curious, Well-Educated Children Outside the Conventional Classroom* (Chicago Review Press). Follow her writing at Whole Family Learning.

## The Difference Between Austrians and Everyone Else — In One Easy Chart

by Jesús Huerta de Soto

[A selection from *Money, Bank Credit, and Economic Cycles* by Jesús Huerta de Soto. For full explanatory notes, see the online version, beginning page 576.]

From the standpoint of our analysis, it is clear that there are far greater similarities than possible differences between monetarists and Keynesians. Indeed Milton Friedman himself has acknowledged: "We all use the Keynesian language and apparatus. None of us any longer accept the initial Keynesian conclusions." Peter F. Drucker, for his part, indicates that Milton Friedman is essentially and epistemologically a Keynesian:

His economics is pure macroeconomics, with

the national government as the one unit, the one dynamic force, controlling the economy through the money supply. Friedman's economics are completely demand-focused. Money and credit are the pervasive, and indeed the only, economic reality. That Friedman sees money supply as original and interest rates as derivative, is not much more than minor gloss on the Keynesian scriptures.

Furthermore even before the appearance of Keynes's *The General Theory*, the principal monetarist theorists of the Chicago school were already prescribing the typical Keynesian remedies for depression and fighting for large budget deficits.

Table VII-1 [[see chart in PDF format](#)] recapitulates the differences between the Austrian perspective and the major macroeconomic schools. The table contains twelve comparisons that reveal the radical differences between the two approaches.

Table VII-1 groups monetarists and Keynesians together because their similarities far outweigh their differences. Nevertheless we must acknowledge that certain important differences do separate these schools. Indeed, though both lack a capital theory and apply the same "macro" methodology to the economy, monetarists concentrate on the long term and see a direct, immediate and effective connection between money and real events. In contrast Keynesians base their analysis on the short term and are very skeptical about a possible connection between money and real events, a link capable of somehow guaranteeing equilibrium will be reached and sustained. In comparison, the Austrian analysis presented here and the elaborate capital theory on which it rests suggest a healthy middle ground between monetarist and Keynesian extremes. In fact for Austrians, monetary assaults (credit expansion) account for the system's endogenous tendency to move away from "equilibrium" toward an unsustainable path. In other words they explain why the capital supply structure tends to be incompatible with economic agents' demand for consumer goods and services (and thus Say's law temporarily fails to hold true). Nonetheless certain inexorable,

microeconomic forces, driven by entrepreneurship, the desire for profit, and variations in relative prices, tend to reverse the unbalancing effects of expansionary processes and return coordination to the economy. Therefore Austrians see a certain connection — a loose joint, to use Hayek's terminology — between monetary phenomena and real phenomena, a link which is neither absolute, as monetarists claim, nor totally non-existent, as Keynesians assert.

In short, Austrians believe money is never neutral (not in the short, medium, nor long run), and institutions that deal with it (banks in particular) must be founded on universal legal principles which prevent a "falsification" of relative prices due to strictly monetary factors. Such falsifications lead to the widespread malinvestment of resources, and inevitably, to crisis and recession. Thus Austrian theorists consider the following to be the three essential principles of macroeconomic policy, in order of importance:

1. The quantity of money must remain as constant as possible (i.e., as in a pure gold standard), and credit expansion must be particularly avoided. These objectives require a return to the traditional legal principles which govern the monetary bank-deposit contract and the establishment of a 100-percent reserve requirement in banking.
2. Every attempt should be made to insure that the relative prices of different goods, services, resources, and factors of production remain flexible. In general the greater the credit and monetary expansion, the more rigid relative prices will tend to be, the more people will fail to recognize the true cost of a lack of flexibility, and the more corrupt the habits of economic agents will become. Agents will eventually come to accept the misconceived idea that the vital adjustments can and should always take the form of an increase in the quantity of money in circulation. In any case, as we have already argued, the indirect, underlying cause of economic maladjustments lies in credit expansion, which provokes a generalized malinvestment of

TABLE VII-1

*Two Contrasting Approaches to Economics*

*The Austrian School*

*Macroeconomists*

*(Monetarists and Keynesians)*

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| <ol style="list-style-type: none"> <li>1. Time plays an essential role</li> <li>2. "Capital" is viewed as a <i>heterogeneous</i> set of capital goods which receive constant wear and must be <i>replaced</i></li> <li>3. The production process is <i>dynamic</i> and is <i>divided into multiple, vertical</i> stages</li> <li>4. Money affects the process by modifying the structure of <i>relative</i> prices</li> <li>5. Macroeconomic phenomena are explained in <i>microeconomic</i> terms (variations in relative prices)</li> <li>6. Austrians hold a theory on the <i>endogenous</i> causes of economic crises which explains their <i>recurrent</i> nature (corrupt institutions: fractional-reserve banking and artificial credit expansion)</li> <li>7. Austrians hold an elaborate <i>capital theory</i> (structure of production)</li> <li>8. <i>Saving</i> plays a decisive role. It causes a <i>longitudinal</i> change in the productive structure and determines the sort of technology to be used</li> <li>9. There is an <i>inverse</i> relationship between the demand for capital goods and the demand for consumer goods. All investment requires saving and thus a temporary relative drop in consumption</li> <li>10. It is assumed that production costs are <i>subjective</i> and not predetermined</li> <li>11. Market prices tend to determine production costs, not vice versa</li> <li>12. The interest rate is a market price determined by subjective valuations of time preference. The interest rate is used to arrive at the present value (toward which the market price of each capital good tends) by discounting its expected future flow of returns</li> </ol> | <ol style="list-style-type: none"> <li>1. The influence of time is ignored</li> <li>2. Capital is viewed as a <i>homogeneous</i> fund which <i>reproduces</i> on its own</li> <li>3. There is a notion of a one-dimensional, <i>horizontal</i> productive structure in <i>equilibrium</i> (circular flow of income)</li> <li>4. Money affects the <i>general</i> level of prices. Changes in relative prices are not considered</li> <li>5. <i>Macroeconomic aggregates</i> prevent the analysis of underlying microeconomic factions (malinvestments)</li> <li>6. An endogenous theory of cycles is lacking. Crises have <i>exogenous</i> causes (psychological, technological and/or errors in monetary policy)</li> <li>7. A theory of capital is lacking</li> <li>8. Saving is <i>not</i> important. Capital reproduces <i>laterally</i> (more of the same), and the <i>production function</i> is fixed and is determined by the state of technology</li> <li>9. The demand for capital goods is <i>directly</i> related to the demand for consumer goods</li> <li>10. Production costs are <i>objective</i>, real and predetermined</li> <li>11. Historical costs of production tend to determine market prices</li> <li>12. The interest rate tends to be determined by marginal productivity or efficiency of capital, understood as the internal rate of discount at which the expected flow of returns is equal to the historical cost of producing each capital good (which is considered invariable and predetermined). The short-term interest rate is believed to have a predominantly monetary origin</li> </ol> |
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resources, which in turn creates unemployment. The more rigid the markets, the higher the unemployment.

3. When economic agents enter into long-term contracts negotiated in monetary units, they must be able to adequately predict changes in the purchasing power of money. This last requirement appears the easiest to satisfy, both when the purchasing power of the monetary unit declines continuously, as has occurred since World War II, and when it gradually and predictably rises, as would occur following the adoption of a policy to maintain the quantity of money in circulation constant. In fact the condition is even more likely to be met in the second case.

Jesús Huerta de Soto, professor of economics at King Juan Carlos University, is Spain's leading Austrian economist, and a Senior Fellow of the Mises Institute. As an author, translator, publisher, and teacher, he also ranks among the world's most active ambassadors for classical liberalism. He is the author of *Money, Bank Credit, and Economic Cycles*, as well as *Socialism, Economic Calculation and Entrepreneurship* (Edward Elgar 2010), *The Austrian School* (Edward Elgar 2008) and *The Theory of Dynamic Efficiency* (Routledge 2009).

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- [Patrick Donohoe - Salt Lake City, Utah](#)
- [Jerold Wood - Robertsedale, Alabama](#)
- [Scott Guldin - North Huntingdon, Pennsylvania](#)
- [Jonathan Webster - Chandler, Arizona](#)
- [Levi Clock - Lawrence, Kansas](#)
- [Frank Riedel IV - Raleigh, North Carolina](#)
- [Michael Burrill - Auburn, California](#)

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*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.