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BANKNOTES

NELSON NASH MONTHLY NEWSLETTER

Updating My Experience With Silver Coins

by R. Nelson Nash

When I wrote *Building Your Warehouse of Wealth* a short chapter was devoted to my personal experience with U.S. Silver Eagle coins.

A short review of the decision to purchase these coins is necessary.

In 1977 two partners and I bought some timberland on Interstate 20 in Talladega County, AL. On the North side of the highway we had the highest point in that broad valley — an ideal spot that attracted owners of cellphone towers. Several years later we got a lease from one of them at a modest annual income for five years — and with a provision that the income would increase 20% each five years as long as they wished to do so.

At the time of my silver purchase my annual income from the tower lease was $2,075.00 and was scheduled to increase 20% in just two years.

During a few years we had offers from several tower operators that wanted to purchase our lease for a lump sum. Since my partners and I were now "senior citizens" we made a deal with one of them for $45,000.00.

Dividing it three ways my share was $15,000.00. I knew that the government was going to confiscate $5,000.00 — so what should I do with the $10,000.00 left over? I decided to buy U.S. Silver Eagles — $44.00 each in 2011.

There has been no annual income from the silver purchase in the last seven years. But, *suppose we did not sell the lease*. If so, I would have had two years of $2,075.00 income plus the 20% increase for five years ($2,490.00/yr).

So, let's see — $2,075 for 2 years is $4,150 plus $2,490 for 5 years is $12,450. That would have been a total of $16,600 income that I gave up in order to buy the silver. Plus, the fact that I would have still had the tower lease that was scheduled to increase to $2,988 the next year.

In 2011 I paid $44.00 per coin plus shipping and wire fee. If I sold the coins back to the dealer, I could get $17.00 per coin plus I would have to pay the shipping fee.

So, buying silver coins is "the way to go", huh?

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Notes from the Cutting Edge of Finance

by Ryan Griggs

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I've just returned from the Nelson Nash Institute's (NNI) annual Think Tank conference for practitioners of the Infinite Banking Concept (IBC) in Birmingham, AL. It seems appropriate to say a few words about the experience.

For context, **the IBC** is a cash-flow management strategy that allows individuals to opt-out of the federally-enforced cartel that you might know as "the commercial banking system." **Nelson Nash** is the creator of the IBC and author of the book *Becoming Your Own Banker*—the key text wherein Nelson explains the IBC from start to finish. **The NNI** is the organization that certifies financial professionals who wish to assist individuals in properly implementing the IBC through the unique construction and design of the financial contract necessary to do so.

The conference featured an address from Nelson himself (86 years young!), presentations on best practices from Authorized IBC Practitioners, and a talk on the proper design of IBC-adherent policies.

From my perspective as a trained economist and former employee of a Fortune 100 financial services firm, **the annual NNI Think Tank *is the preeminent financial conference***, period. No, it wasn't because of any nifty "free crap" giveaways, nor due to any high-dollar celebrity appearances (although NNI co-founder Robert Murphy may qualify as a "celebritarian" or "libertarian celebrity" in some circles, if not a karaoke phenom to boot).

What solidifies the NNI Think Tank's position as the destination for financial professionals has two elements: **the content** and **the men** behind the operation.

Plainly speaking, the IBC is the every-man's financial strategy.

A man who produces more than he consumes has an opportunity. He can choose to deposit his excess income (or profit, at the business level) with a commercial bank. He who does so faces the inherent risk associated with commercial bank accounts—that of *total loss of his money*. Because commercial banks engage in what is known as "fractional reserve banking," or in simple terms: the process of accepting deposits and lending out up to a small *fraction* of them, all commercial banking institutions are unable to satisfy all customer withdrawal requests in a given time period. Yes, this means that if too many people request to withdraw their money from a bank at one time, the bank may simply reject the request. Not only may the bank reject the request, but they can do so *legally*, since the federal government implicitly endorses the process of fractional reserve banking by imposing "reserve requirements" of less than 100% (it's closer to 10%). This means that while customers may think that they have access to their deposited funds, the fact is this may not be true.

Economist Murray Rothbard describes the problem in his typical, brilliant style:

> *There are two major ways in which [the banker] can become insolvent.*
>
> *he first and most devastating route, because it could happen at any time, is if the bank's customers, those who hold the warehouse receipts or receive it in payment, lose confidence in the chances of the bank's repayment of the receipts and decide, en masse, to cash them in. This loss of confidence, if it spreads from a few to a large number of bank depositors, is devastating because it is always fatal. It is fatal because, by the very nature of **fractional-reserve banking**, the bank cannot honor all of its contracts. Hence the overwhelming nature of the dread process known as a "bank run," a process by which a large number of bank customers get the wind up, sniff trouble, and demand their money. The "bank run," which shivers the timbers of every banker, is essentially a "populist" uprising by which the duped public, the depositors, demand the right to*

their own money. This process can and will break any bank subject to its power. Thus, suppose that an effective and convincing orator should go on television tomorrow, and urge the American public: "People of America, the banking system of this country is insolvent. 'Your money' is not in the bank vaults. They have less than 10 percent of your money on hand. People of America, get your money out of the banks now before it is too late!" If the people should now heed this advice en masse, the American banking system would be destroyed tomorrow. (Bold added)

Nelson hints at the alternative to this risk-riddled banking option in the title of his life-changing book *Becoming Your Own Banker*. Individuals can become their own "banker," instead of relying on other bankers, by managing their cash and "banking" activities through a specifically-designed, dividend-paying Whole Life insurance policy.

These policies have special features that allow the owner to "bank"—that is, to conduct the process of borrowing and repaying money—on *incomparable* terms. In particular, the person who "deposits" money through premium payments to the insurance company builds cash value, which you can think of as equity, or ownership, in the policy—that *he* controls. He can collateralize the cash value of his policy and borrow money from the insurance company *when he demands it* and *he* sets the terms of repayment. Meanwhile, the cash value continues to grow, *compounding constantly*. Indeed, practicing IBC through a properly-designed, dividend-paying Whole Life policy is *the only* method of compounding the value of a financial contract on a *guaranteed* basis. Of course, since we're talking about a life insurance contract, there's also a death benefit, which—with appropriate design and use—will *increase* over time.

Put simply, whereas the typical bank deposit carries a risk of total loss, is the property of another party, lacks a death benefit, cannot be used as collateral on a loan, and hardly grows at all, the cash value of a properly designed and used "banking policy" is guaranteed against loss, is the property of the contract owner, is linked to an increasing death benefit, can be used as collateral on-demand, and grows *exponentially*.

No other organization is devoted to the promotion of such a concept. This alone puts the NNI and its Think Tank conference directly at the top of any ranking of financial education organizations and events.

The NNI was founded by Nelson Nash, Robert Murphy, Carlos Lara, and David Stearns. A few words apply to them all. These are Christian gentlemen. They've each done what the critical, thinking man aims for in this life: to conduct his professional affairs in a manner such that he is able to serve his fellow man in a mutually-beneficial fashion all integrating his own spiritual and philosophical views. A word comes to mind that characterizes each of them: formidable.

Nelson Nash himself deserves special attention. His book is a hint at his intellectual prowess; his presence is a testament to the integrity of his character. Consider: an 86 year-old man stands on stage, speaking before tens of high-producing financial professionals in total command of their attention. He weaves Christian teaching with advanced economic theory, inserting extemporaneous strikes of humor and wit with timing that—like the IBC—is more "caught, rather than taught." As fellow audience members would attest, you could witness a Nelson Nash presentation 100 times, and every time would feel as though it were the first. That level of rigorous authenticity has an endearing, magnetic pull to it. You're drawn in whether you want to be or not, and the thought of resisting wouldn't make sense anyway.

Taken together, the content of and the men behind the annual NNI Think Tank make it "a must." If you have the opportunity to attend a future NNI Think Tank either as an Authorized IBC Practitioner, or as a guest of one, I unequivocally recommend that you capitalize on it.

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Owners vs. Managers

by Butler Shaffer

When I was in law practice, I represented employers in matters involving labor law. My experiences confirmed how respect for the inviolability of private property interests was the essential element not only for a peaceful and orderly society but also for a world of individual liberty free of the violence and destructiveness of political systems. One of the things I noticed with a high degree of consistency was that clients who were the owners of businesses tended to take longer-term (timewise) and more philosophically principled actions than did those who were only *managers* of the firms they represented. Ownership carried with it a perspective that was inseparable from the personhood of the owner. Business firms with such names as "Ford," "Chrysler," "Westinghouse," "J.P. Morgan," and "Rockefeller," reflected the sense that the personality of the creator-owner transcended his own life and carried over into the family-name shared by his children and grandchildren. In much the same way that long-standing farms would have family cemeteries on them, "property" was looked upon as more than a temporary convenience or asset. One who was an owner cared about the long-term implications of his/her decision-making that extended beyond their death.

The mindset of the *manager* of an enterprise, I observed, was much different. Being an employee of a firm owned by another, his/her perspective extended, at most, to the end of the contract of employment. There is nothing dishonest or irresponsible in this arrangement; it only demonstrates some of the costs incurred when ownership is separated from *control* of property. The owner would not want the manager to share in his/her ultimate authority over the property; nor would the manager, as an employee, expect to.

In this sense, the employee's motivations are comparable to those of politicians, judges, and government regulatory agencies. The outcomes of human action are a reflection of the *incentives* of the actors. The productive and creative regularities of the marketplace are determined not alone by the moral or visionary character of those working within it, nor by their innovative genius. It is, rather, that the incentives of those who control decision-making over what they own, will always be different from those with the power to control the property interests of others. It misses the point to blame politicians, ideologically-driven bureaucrats, or other government officials for undesired outcomes of their interventions in economic matters. Owners are motivated to maximize the long-term well-being of what they own. Non-owners are driven by other considerations. It cannot be otherwise. The naïve sentiment that bringing businessmen into government – in the expectation that their decisions will foster the general profitability of marketplace participants – continues to be voiced. That such practices enhance the allures of "crony-capitalism," is the most that can be said for them. But when, under political systems, control is severed from ownership, bankruptcies and other dislocations are likely to occur, as is the likelihood for the collapse of civilizations, whose vibrancies depend upon what one noted historian called "creative power in the souls of creative people." It is only when individuals are at liberty to act on their authority in the world – a condition dependent upon the private ownership of some part of that world – that such creative energies are released.

The "property" principle is at the core of the struggle between individual liberty and political systems. It is amusing to watch people's reactions to the avowed socialist, Bernie Sanders. Most do not understand that every form of government is, to the degree it intrudes upon people's lives, socialistic. The state in its various forms is premised upon the broader principle of *eminent domain*, i.e., upon the idea that the lives and other property interests of individuals are subject to the claim of superior authority of the state. Those who like to make distinctions between the "socialism" of the Soviet Union and other Marxist-inspired regimes, and the "fascism" of Nazi Germany, forget that Hitler called his party the "*National Socialist German Workers' Party*"

("*Nazism*" being derived from "National Socialist"). That all political questions are property issues is too blunt a proposition for those who like to delude themselves with the idea that the American political system is premised on the protection of private property. For this reason, the state's intrusions upon "property" are kept hidden behind such phrases as "environmentalism,' "pollution," "women's rights," "waste disposal," "war on drugs," "mandatory vaccinations," "children's rights," "climate change," and numerous other programs that transfer decision-making from owners to government officials.

The behavior of my business clients reflected this division between owners and managers. Why would so many of my owner-clients dig in their heels and refuse to give in to the demands of some government agency; and why, by contrast, would a manager be all too willing to participate in such a surrender? The Austrian economist, Joseph Schumpeter, explored the same questions that had been troubling me in his important book, *Capitalism, Socialism, and Democracy*. Echoing what I was discovering experientially, Schumpeter observed that "from the logic of his position [the manager] acquires something of the psychology of the salaried employee," a process that "socializes the bourgeois mind," and ends up producing a more structured setting in which decision-making shifts from longer-term to shorter-term perspectives. The role that such transformations had in the eventual collapse of civilizations have been noted by such historians as Arnold Toynbee, Will and Ariel Durant, and Carroll Quigley. Renaissance historian, Jacob Burckhardt, was even more forceful in describing the transformations in consciousness that helped to produce that most creative contribution to Western Civilization as one in which there emerged the "man [who] became a spiritual individual and recognized himself as such."

Such human action and the benefits it has bestowed upon individual actors as well as the rest of society, are possible only when decision-making is diffused by the property principle and individuals are free to pursue their self-interests over what is theirs to control.

I saw a vivid example of these dynamics in 1966, when my family and I lived in Colorado. In the summer of that year, there emerged a supposedly "spontaneous" housewives boycott of grocery stores in Denver, protesting high grocery prices. The boycott was a sufficient mixture of unfocused emotion and economic ignorance to assure daily attention from both local and national news media. Many store-managers, with the short-term perspectives that helped define their employment positions, made decisions reflecting such outlooks. One of the complaints made frequently by boycotters had to do with the supposed high price of bacon. One man, the manager of a local prominent grocery chain, apparently seeking to appease the boycotters, announced a very significant reduction in bacon prices. That his action only further inflamed the housewives should have surprised no one. One noted that, even at the lowered price, his store was making money from the sale of bacon!

By contrast, an intelligent response to the boycott was offered by one of my folk-heroes, Lloyd King, the owner of what I believe was Colorado's most prominent grocery chain, King Soopers. Lloyd decided that, instead of just reacting to the daily outpouring of error and economic ignorance, he would undertake a campaign to educate the boycotters about the grocery business. How else could he intelligently confront the statement, made by one boycott leader, that for every dollar customers spent at a grocery store, fifty-two cents (as I recall the figure) was pure profit to the store. When asked to substantiate her claim, the woman offered a report from a Colorado state economics agency showing that, over the past ten years, grocery sales in Colorado had increased by fifty-two percent! (I do wonder if this woman is now an ardent Bernie Sanders supporter!)

One thing Lloyd did was inform the boycotters that he would open his financial books to any auditing firm of their choice to examine any aspect of his business they desired and, further, that he would pay the auditor's fees. In exchange, he asked them

to participate in a learning exercise, under the direction of a friend of mine, a retired Army colonel. Among the many things my friend did, was to have one of the boycott leaders take a course I offered at nearby Rampart College. I spent a good deal of time explaining how the pricing system was the basis for economic decision-making in a market economy; that without that system, the only way in which goods and services could otherwise be produced and distributed was through the arbitrary criteria of coercive regulators. As always, the example I used was grocery pricing, as students were best able to relate their life experiences to this.

As we were exploring this subject, the boycott leader suddenly became very emotional, started crying and yelling. Thinking this would be a good time for a break, I went over and sat beside her and asked her what was wrong. In words forever etched in my memory, she replied: "I just realized how I have been used."

Just how ordinary, well-intended men and women – and even children – can be exploited for concealed purposes was further brought to my attention at about this same time. My retired colonel friend was on an airline flight from Washington, D.C. to Denver, and found himself seated next to a young woman with whom he struck up a conversation. In asking her what line of work she was in, she answered that she worked for the U.S. Department of Agriculture as "public relations liaison." When my friend inquired what this involved, she asked him if he was aware of the Denver housewives boycott. He replied that he was, and she informed him that her department was running the boycott; writing speeches and issuing press releases; and otherwise planning strategies for the campaign. My friend was curious as to why the federal government would be interested in running such a boycott, to which she answered that President Johnson was anticipating a net increase in Democrats in both the House and Senate in that fall's election. It was his desire to then impose wage-and-price controls on the economy, and he needed a showing of public demand for something to be done about "high prices." So much for the oft-repeated catechism that there are no "conspiracies" in our well-ordered world.

While this was transpiring, Lloyd King was at work demonstrating how government regulation increased the prices people paid for goods and services. The Colorado legislature had earlier enacted a price-fixing scheme, actively supported by members of the dairy industry, creating a governmental agency empowered to establish *minimum* prices that could be charged for dairy products. Lloyd decided to openly challenge this law by running grocery store ads for milk to be sold at his stores for substantially lower prices than were allowed by the state. He was immediately prosecuted, found guilty, and subjected to a large fine. As he was doubtless the largest advertiser in Colorado newspapers, I suspect he had no difficulty in getting two news stories placed side by side on the front-page, above-the-fold location. On one side was a reporting of Kings Soopers being fined for selling milk at prices below those permitted by the state; next to that was the story about how the housewives boycott against high prices was continuing! To paraphrase H.L. Mencken, even newspaper editors and clergymen might sometimes see the contradictions in all of this!

These examples should remind us of the dangers to both our liberty and our economic well-being in dividing ownership and control over property.

Oh, in case you were wondering, the *Republicans*, not the *Democrats*, made net gains in the 1966 November elections. As such, the housewives "spontaneous" boycott of grocery stores that began that summer just as "spontaneously" disappeared after the votes were counted!

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Why Bad Economics Makes Such Good Politics

Ryan McMaken

As the election nears, politicians will more and more frantically point out what wonderful favors they've done for the voters — or what favors they *will* do for the voters, if elected.

Of course, they never mean *all* the voters. They mean groups or individuals within the voting population who believe they benefit from laws, taxes, regulations, and spending programs supported by the politician in question.

Two such examples of these sorts of favors are tariffs and minimum wage laws. Both impose costs on both producers and consumers overall, while benefiting a small sliver of the population that is able to take advantage of the government mandate.

The economics of each of these, or taxation and business regulation in general, have already been addressed numerous times in these pages.

It must suffice to point out that these policies, for which politicians think they deserve accolades, potentially benefit only very specific interest groups. Nevertheless, these policies can prove to be politically popular, and may help a politician get elected.

But why should policies that help so few — and impose many costs on even those they purport to help — be politically popular?

Hazlitt and Mises on the Popularity of Bad Economics

Answering this question was one of the main reasons that Henry Hazlitt wrote his perennially popular book *Economics in One Lesson*.

In the very first chapter, Hazlitt notes that economic science is prone to so many errors because people are motivated to believe an incorrect version of economics that supports their own economic interests. Or as Hazlitt put it, economic errors "are multiplied a thousandfold ... by the special pleading of selfish interests."

Sometimes, these attempts to throw good economics in the garbage are spectacularly successful. After all, for decades, no insignificant number of Americans believed the claim that "what's good for General Motors is good for America."[1]

Hazlitt continues:

> While every group has certain economic interests identical with those of all groups, every group has also, as we shall see, interests antagonistic to those of all other groups. While certain public policies would in the long run benefit everybody, other policies would benefit one group only at the expense of all other groups. The group that would benefit by such policies, having such a direct interest in them, will argue for them plausibly and persistently. It will hire the best buyable minds to devote their whole time to presenting its case. And it will finally either convince the general public that its case is sound, or so befuddle it that clear thinking on the subject becomes next to impossible.

In other words, it's amazing what you can get people to believe with the right ad campaign or lobbying campaign.

Ludwig von Mises also defined the problem in his book *Theory and History*, noting that the *common* good (which he called the common weal) was most certainly not the same thing as the good of the special interests. Nevertheless, many (bad) economists, Mises tells us, have tended to support policies that benefit whatever group the economists happen to like:

> People aim at definite ends when resorting to a tariff or decreeing minimum wage rates. When the economists thought such policies would attain the ends sought by their supporters, they called them good.

The real job of an economist, however — according to Mises — is something else:

> In dealing with [economic policies] ... economics ... merely investigates two points: First, whether or

> not the policies concerned are fit to attain the ends which those recommending and applying them want to attain. Secondly, whether these policies do not perhaps produce effects which, from the point of view of those recommending and applying them, are undesirable.

When politicians support minimum wages or tariffs, they usually frame these policies as being beneficial to nearly everyone. (This is why headlines like "Raising the minimum wage would benefit everyone" are so common.) Meanwhile, both Mises and Hazlitt would maintain, drawing on sound economics — and not even using the empirical evidence which backs them up — that these policies harm nearly everyone and benefit only a few. Moreover, the benefit enjoyed by that small minority may even extend only to the short term, or may even be negative when the bigger picture is considered.

As Hazlitt notes, it is the job of the economist to consider all of these angles and options, and thus economists do their job when explaining how and why minimum wages and tariffs don't "attain the ends" which their supporters claim.

The Problem with "I'm Willing to Pay a Few Bucks More..."

Confronted with the simplicity and basic common sense of the economic arguments, advocates for minimum wage hikes and tariffs often fail to get the support they like. To counter this, they employ a different tactic.

When economic arguments fail, supporters of these policies then claim that "well, I am willing to pay the price of adopting the interventionist economic policy in question because...." suggesting that the cost is low, and that there is a moral imperative to adopt their interventionist point of view.

This is how it works: Economist A points out to Activist B that a tariff raises the price of goods, thus making products and services more expensive for entrepreneurs and producers who use those goods. This leads to fewer goods being available on the market, fewer choices for everyone, and higher prices to boot. Activist B then responds: "well, maybe the tariff will make prices higher, but *I'm* willing to pay that price because the Chinese are cheating us! Beating the Chinese is worth a few bucks more on widgets!"

But here's the rub: when Activist B says "*I'm* willing to pay that price" what he is *really* saying is that he's willing to have *you* pay more for the goods and services affected — whether you like it or not.

And if you're not happy to pay more in order to "beat the Chinese," (or whatever) well, then that's just tough luck. The fact that the tariff might be slashing profit margins at your small, family-owned steel-fence manufacturing firm means nothing to them. The fact that a higher minimum wage might force you to close your family restaurant is equally of no concern. *They're* willing to pay the price of adopting the policy they want, so you are expected to do the same since, in their minds, the good of their own interests — whether they be economic or moral — trumps the interests of everyone else.

Ultimately, this is nothing more sophisticated than the belief that the police power of the state ought to be used to force economic policies on everyone to satisfy the whims of a few. It's nothing more than good old-fashioned mercantilism. Many good economists, thinking they had thoroughly discredited mercantilism 200 years ago, continue to be dismayed that a sizable portion of the voting public continues to be hoodwinked by it all. But, if history is any indicator, mercantilism never really stopped being popular.

1.This is an often-repeated, though not-quite-accurate version of GM President Charles Wilson's 1953 quotation: "for years I believed what was good for our country was good for General Motors, and vice versa."

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Leonard Read's Vision of a Liberty-Loving Government

In a dramatic contrast with political candidates' promises to violate moral principles and other people's property, Leonard Read recognized that "Nothing is in our nation's capital except that which is taken from individuals."

Gary M. Galles

In Richard Ebeling's "*This Is What a True Liberty-Loving Politician Would Look Like*," he provides a sharp contrast between politicians as we know them and politicians who would advance liberty. But there is another little-remembered source that provides a similarly inspirational example of a politician "who loves liberty better than power" rather than panderers who love power better than liberty. That is Leonard Read's 1948 *Pattern for Revolt*, written for that year's presidential campaign. Revisiting some of his insights also remind us of how invaluable our liberties, and all the blessings they provide, are.

> The all-authoritarian state marches on…abetted by an ever-increasing number of gravy-trained citizens.
>
> The people [have] no choice except between power-seeking personalities and groups, each offering a superior administration of government-as-master. Such a choice…is no choice at all.
>
> The voice of expediency…must mislead because it represents the rejection of moral principles for the hope of temporary gain…a truly liberal party would have been asking "How can we liberate the individual from the tyranny of the State."
>
> Transfer of power from one party to the other is important only if the ascending party has principles which it is important to substitute for the principles of the party in power.
>
> Government should not be so expanded…Men in government, therefore, should be those who aim at making government as unnecessary as possible.
>
> In every field where arbitrary authority is imposed we shall inquire how it may be removed and replaced by a reliance on the initiative and enterprise of individual citizens. We must give to the art of self-government its American renaissance.
>
> The only way to guard freedom is to remove, to destroy, unwarranted restrictions and coercion.
>
> Governments should have only limited powers and functions…[but] Opponents of freedom…have pre-empted the language of freedom.
>
> Our plunderstorm economy…[arises from] conviction on the part of millions that they have…a right to share in the property of others... this is a wholly immoral notion.
>
> This group-thirst for political plunder…calls for an understanding of where personal rights end and infringement on the rights of others begins.
>
> In the hope of plundering more from others than others succeed in plundering from us, we have voted away the inestimable benefits for which government and law were originally instituted.
>
> We founded our government…on the premise that the individual citizen has certain inalienable rights and that government and law should protect those rights…we should restore government and law to their proper functions, limit them as we originally intended they should be limited.
>
> This nation has legalized plunder…we seek prosperity by the fruitless process of picking each others' pockets.
>
> No man...[is]competent enough to apply [coercion] justly and wisely, to any responsible adult person.
>
> Given freedom of opportunity, protection from fraud, violence and predation…we can and will look out for ourselves better than will any other person or any government agency.
>
> [Government] failures…[derive from] their guarantee to meet "human needs" and their inability to meet the ever-growing demands and impossible responsibilities to which they thus exposed themselves.
>
> The real reasons for most of the present and recent

> distress inhere in the suppressions of liberty, in the sabotaging…of the free competitive economy, which alone produces general prosperity. Re-establishing a free economy is the only road to progress…by the repeal of those laws, rules and regulations which impede it.
>
> The American philosophy of government is premised on our countrymen being free men. This is what our birth as human beings gives us a right to be…it is the object to which our Constitution commits us.
>
> I do not desire to reorganize the lives of other people under the pretext of doing them good…turn your hopes from this place on the Potomac…It is the most unproductive spot in these United States…May your Federal Government no longer be condemned for what it plunders from some. And may it never have applause because of the loot it bestows on others.

In a dramatic contrast with political candidates' promises to violate moral principles and other people's property, Leonard Read recognized that, "Nothing is in our nation's capital except that which is taken from individuals." That is why his *Pattern for Revolt* is a bracing reminder of what has been lost, which complements Richard Ebeling's outline of true liberty-loving politicians. It merits attention from anyone who, "If given the opportunity…would revolt against all of those political devices and ideas incidental to government in the role of master."

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Why Spiritual People Are More Inclined to Embrace Free Markets Than Materialists

Capitalism, after all, is a system that requires a level of comfort with inequalities in material outcomes.

Jon Miltimore

In his 1993 book *The Catholic Ethic and the Spirit of Capitalism*, the late Christian philosopher Michael Novak wrote that certain cultures are more likely to favor capitalism. Among them were the following: Confucian, Jewish, Protestant, and Northern European Catholic.

These cultures, Novak argued, possessed certain commonalities that made them more likely to engage in capitalism successfully and responsibly. Among the commonalities cited by Novak were "a certain rigor and austerity, an almost Stoic sense of sobriety and responsibility, and a certain disdain for corruption."

Capitalism vs. Materialism

The idea that some cultures might engage in capitalism differently than other cultures sounds a bit presumptive to modern ears, but it's also very capitalistic. Capitalism, after all, is a system that requires a level of comfort with inequalities in material outcomes.

People with skills and services that are scarce, valuable, and in high demand will naturally thrive more than people who lack such skills. The capitalist finds this arrangement perfectly natural, whereas the materialist finds it abhorrent.

Perhaps this is why Novak believed that capitalism, paradoxically, was a system suited for spiritual societies, not materialistic ones. "The only long-lasting foundation for a capitalist society is a moral, spiritual, and religious one," he wrote.

This idea might sound paradoxical, but Novak was not the only adherent to this view. In their book *Common Sense Business*, authors Theodore Roosevelt Malloch and Whitney MacMillan write

that the idea of work as a higher "calling" is very much ingrained in the Western mind.

Work Is Spiritual

A concept introduced by Reformation leader Martin Luther and popularized by German philosopher Max Weber in his famous 1905 work *The Protestant Ethic and the Spirit of Capitalism*, the idea of work as a calling is a stark contrast to that proposed by Marx, who called work an "unfree, unhuman, unsocial activity."

Malloch and MacMillan argue that the view of work as a noble, spiritual calling is held at some of the most successful corporations in the world—such as Germany's Miele, a domestic appliance company headquartered in Gütersloh—and is crucial to a healthy capitalist ecosystem.

"This idea gives powerful legitimations to the conduct of business," Malloch and MacMillan write. "It's not only the priest, nun, or preacher who has a religious 'calling' to fulfill. It's everyone in all walks of life. Such a spiritual understanding encourages a deeply serious and conscientious attitude toward work."

Malloch and MacMillan's point would seem to buttress Novak's argument that some cultures will favor capitalism and practice it better than others. A spiritual culture—Confucian, Protestant, etc.—is more likely to favor capitalism because it finds deep and lasting value in work, a value that goes beyond the material fruit it yields.

A materialist culture, on the other hand, will be more likely to reject capitalism because it will be more likely to ignore or reject the spiritual fruit work offers and instead focus on inequalities in material outcome.

To sum it up (and to paraphrase Malloch and MacMillan), spiritual cultures will thrive under capitalism because they will embrace a powerful idea: work is spiritual.

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What the Economic Models of Nobel Laureate William Nordhaus Say on Climate Change

The UN's pessimism doesn't jibe with these economic models.

by Robert P. Murphy

Yale University professor William Nordhaus was named a co-recipient of this year's Nobel (Memorial) Prize in economics for his work on climate change. The award was of particular interest to me because back in 2009 I published an article in The Independent Review offering a thorough analysis and critique of his Dynamic Integrated Model of Climate and the Economy (DICE). At the Institute for Energy Research website, I have explained that Nordhaus's latest version of his model does not support the United Nation's current push for aggressive measures to limit global warming. In the present post, I will revisit my 2009 article to showcase three surprising facts about Nordhaus's DICE model, all of which are very relevant to the climate change policy debate.

Surprise #1: Overly Aggressive Policies Are a Cure Worse Than the Disease

The most important table in my paper was taken directly from A Question of Balance: Weighing the Options of Global Warming Policies, Nordhaus's 2008 book treatment of the 2007 version of his model. The table shows the costs and benefits of various policy goals for dealing with climate change:

SOURCE: Murphy 2009, p. 11.

Table 4
DICE's Relative Benefits of Different Climate Policies
(in Trillions of 2005 U.S.$)

Climate Policy	PDV Difference from Baseline	PDV of Environmental Damages	PDV of Abatement Costs	Sum of Damages and Costs
No controls baseline	0.00	22.55	0.04	22.59
Optimal tax	+3.07	17.31	2.20	19.52
Limit CO_2 to 560 ppm	+2.67	15.97	3.95	19.92
Kyoto with the United States	+0.63	21.38	0.58	21.96
Kyoto without the United States	+0.10	22.43	0.07	22.49
Stern Review discount rate	−14.18	9.02	27.74	36.77
Limit temp. to 1.5°C	−14.44	9.95	27.08	37.03
Limit CO_2 to 420 ppm	−14.60	9.95	27.24	37.19
Gore's 90 percent emissions cut	−21.36	10.05	33.90	43.96

Note: PDV = present discounted value.
Source: Adapted from Nordhaus 2008, 89.

In Table 4 (reproduced from my paper), we see the costs and benefits from various climate policies, according to the 2007 calibration of Nordhaus's DICE model.

For example, in the baseline case of no controls from the government, the long-run cost of environmental damages is estimated to be $22.55 trillion, expressed as a present-value sum (in 2005 dollars). However, Nordhaus's baseline includes virtually no "abatement costs," which measure the harm to the economy from complying with onerous climate regulations and emission taxes.

In the second scenario, Nordhaus shows the cost that his model yields when all the governments of the world implement a carbon tax at the optimal rate (which increases over time, although this isn't shown in the table). Because greenhouse gas emissions are lower in this scenario, the present-value of environmental damages drops to $17.31 trillion.

Note that this estimate is $5.24 trillion lower than the estimated environmental damages in the baseline scenario. However, those gross benefits of the optimal carbon tax are not the actual net value of implementing the policy. Being a good economist, Nordhaus also acknowledges the cost of implementing his ideal carbon tax in the form of forfeited economic output. As Table 4 indicates, the present-value of the total abatement costs from Nordhaus's optimal carbon tax is $2.2 trillion. Thus, the net benefits of the optimal carbon tax—relative to the "no controls baseline"—is only $3.07 trillion, shown in the first column of the table.

So, to sum up: In the world of the DICE model, as of its 2007 calibration, the theoretically optimal carbon tax made humanity about $3 trillion richer (in present-value terms) compared to a laissez-faire scenario in which businesses and households emitted more than the socially optimal amount of carbon dioxide. Hence William Nordhaus in real life supported a carbon tax because—done right—it had the ability to make humanity up to $3 trillion richer.

Yet notice something very interesting. Table 4

also shows the gross benefits and costs from other possible climate policies. And the worst shown alternatives—especially Al Gore's proposal to cut emissions by 90 percent—would not only yield worse outcomes than "doing nothing" (i.e. the no-controls baseline), but the absolute value of the net harms would also be several times larger than the net benefits of the optimal policy. For example, Gore's recommendation would hurt conventional economic output so much that humanity would be $21 trillion poorer than under the baseline scenario. (This is a net figure, taking into account the large reduction in future climate change damages due to Gore's aggressive limit on emissions.) Thus, Gore's proposal would cause seven times as much net damage as the net benefits accruing from Nordhaus's theoretical optimal policy.

Before moving on, consider in Table 4 the policy goal of "Limit temp. to 1.5°C." This policy, although not as disastrous as Gore's proposal, is still quite bad: it makes humanity $14 trillion poorer than doing nothing about climate change, and here, again, the net damages from this bad policy are more than four times the magnitude of the net benefits from the best possible policy.

Why am I focusing on this scenario? Astute readers will recognize that limiting global warming to 1.5°C is the UN's latest announced goal, released on the same day as the announcement of Nordhaus's Nobel Prize. Although I and other free-market analysts have pointed out the irony, the lion's share of the media coverage treats Nordhaus's award as complementary to the latest UN calls for drastic government intervention in the energy and transportation sectors.

(To be clear, Nordhaus's more recent model calibrations are more pessimistic about the harms of climate change, and so the UN's target wouldn't be as ludicrous as it seemed in his 2007 model runs. However, as I explain at the Institute for Energy Research, it's still the case that Nordhaus's DICE model recommends far more warming than the UN's preferred ceiling.)

Surprise #2: "Optimal" Carbon Tax Almost Triples within a Decade

It's interesting to look back at Nordhaus's estimates for the optimal carbon tax, based on his 2007 model runs, and compare them to his most recent (2016) update. As I showed in Table 3 of my article, back then Nordhaus estimated the optimal tax in the year 2025 at $53.39 per ton of carbon(not carbon dioxide), measured in 2005 dollars.

However, before we compare the figure to his most recent estimate, we should make two adjustments. First, we need to convert the 2005 dollars to 2010 dollars because the latter is what Nordhaus uses in his recent update. According to the Bureau of Labor Statistics CPI Inflation Calculator, the relevant figure in 2010 dollars should be $59.83.

The second adjustment is to convert the figure from a tax per ton of carbon to a tax per ton of carbon dioxide (which is now the standard unit in this literature). So we need to divide our figure by 3.67 in order to reach the warranted conclusion: back in 2007, Nordhaus's DICE model estimated the optimal carbon tax in the year 2025 would be $16 per ton of carbon dioxide (in 2010 dollars).

Yet according to Nordhaus's 2016 calibration, the optimal carbon tax in the year 2025 would be $44 per ton—meaning the estimate has almost tripled in under a decade.

Now, to be sure, proponents of aggressive government intervention would exclaim, "You see?! We told you the situation was dire! The evolution of Nordhaus's estimate shows that we need a stiff carbon tax right now."

However, opponents of aggressive government intervention could review this history and respond, with just as much justification, "This is clearly a very fluid area full of speculation. If the recommended dosage of a certain dietary supplement almost tripled in nine years, many people would understandably conclude that medical science was still grappling with the issue and would be less confident in heeding their doctor's advice."

Surprise #3: Most of Nordhaus's Estimated Climate Change Damages Based on Ad Hoc Method

A final takeaway from my 2009 article revolves around its Table 2, which shows the sectoral breakdown of the impacts of a hypothetical 2.5°C warming. According to Nordhaus's 2007 treatment, this level of warming would cause an expected 1.5 percent hit to global GDP.

However, upon closer inspection, we see that "catastrophic impacts" account for an expected hit to global GDP of 1.02 percent, which works out to 68 percent of the total damages. Now, if this figure were derived in a systematic way, it would be one thing. However, as I explain in more detail in my article, it is quite surprising to see how Nordhaus (and his earlier co-author) actually came up with this number. Here's how I summarized the situation:

> Nordhaus in 1994 asked experts to estimate (among other things) the probability of global GDP loss of 25 percent in the event of 3.0°C warming…The surveyed experts gave him their answers, from which he computed the mean. By 1999, further research had made these scenarios seem more plausible or catastrophic. So, Nordhaus and Boyer took the original average of probabilities reported by the experts, *doubled it*, and then assigned this new figure as the probability for a *30 percent loss of GDP rather than the 25 percent* the experts had been told to consider, for a less significant *warming of 2.5°C rather than the 3.0°C* mentioned in the original survey. (Murphy 2009, italics in original.)

And so we see the crude method by which Nordhaus derived his "expected value" of catastrophic impacts, which was computed by weighting the huge potential loss of 30 percent of global GDP according to the (low) probability of such an outcome occurring. As I indicate in the above block quotation, the numbers he plugged into this calculation were rather arbitrary, only loosely tied to what was even originally merely a survey of experts (as opposed to an actual analysis of concrete scenarios).

It is true that Nordhaus's model and the other Integrated Assessment Models (IAMs) of the global economy and climate system have continued to improve over the years. Nonetheless, MIT's Robert Pindyck—who is a *proponent* of carbon taxes—wrote a scathing peer-reviewed article in 2013 in which he dismissed these models as "close to useless." Among their faults, the models gave policymakers a false sense of precision because their damage functions were crude and arbitrary.

Conclusion

William Nordhaus is a pioneer in the economics of climate change and arguably invented the discipline in its modern form. His so-called DICE model of the global economy and climate system is state-of-the-art and was one of three selected by the Obama Administration to estimate the "social cost of carbon." In recognition of his accomplishments, Nordhaus was one of this year's Nobel laureates in economics.

Despite his prestige, Nordhaus's model has serious shortcomings, as I documented in The Independent Review in 2009. Looking back, there are three surprising facts about Nordhaus's model that are relevant to today's policy debate:

First, Nordhaus shows that aggressive mitigation policies can be a cure worse than the disease, and he specifically includes the United Nation's latest goal in his examples of such misguided goals. Second, Nordhaus's estimate of the optimal carbon tax (for the year 2025, for example) has almost tripled in less than a decade. Third, far from being tied to specific analyses of particular threats, Nordhaus's global damage estimate was largely driven by a simple survey of experts, and this figure was furthermore manipulated arbitrarily by Nordhaus in light of new developments. The public would be very surprised to learn just how crude the "settled science" underlying various proposals to limit climate change really is.

This article was reprinted from the Independent Institute.

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Compulsory Schooling Is Incompatible with Freedom

America's Founding Father knew that forcible education was incompatible with freedom.

Kerry McDonald

If we care about freedom, we should reject compulsory schooling. A relic of 19th-century industrial America, compulsory schooling statutes reduced the broad and noble goal of an educated citizenry into a one-size-fits-all system of state-controlled mass schooling that persists today.

Jefferson recognized that compulsory schooling would be a threat to liberty.

Horace Mann, the designer of the nation's first compulsory schooling law in Massachusetts in 1852, saw taxpayer-funded, universal compulsory schooling as a way to mold children into moral, democratic citizens. He famously said: "Men are cast-iron, but children are wax."

Despite the fact that he homeschooled his own children, Mann built the Prussian-inspired foundation for the modern government schooling apparatus, cementing education's enduring association with schooling. His biographer, Jonathan Messerli, writes of Mann: "That in enlarging the European concept of schooling, he might narrow the real parameters of education by enclosing it within the four walls of the public school classroom..."

Founding Father of Forced Education

For Mann and his colleagues, compulsory schooling represented a dramatic leap from the Founding Fathers who influenced their vision. Thomas Jefferson, for example, recognized the essential connection between education and freedom, writing in 1816: "If a nation expects to be ignorant and free in a state of civilization, it expects what never was and never will be."

Jefferson supported a decentralized framework of education, free to the poor; but, unlike Mann, he recognized that making such a system compulsory and government-controlled would be a threat to liberty. Jefferson wrote in 1817: "It is better to tolerate the rare instance of a parent refusing to let his child be educated, than to shock the common feelings and ideas by the forcible asportation and education of the infant against the will of the father."

Despite Jefferson's warnings, compulsory schooling laws were enacted and expanded during the late 19th and early 20th centuries, mandating school attendance under a legal threat of force. Some 20th century education philosophers and social reformers, like John Dewey, aimed to lessen the impact of forced schooling, striving to make classrooms and curricula more relevant to children's experiences and more hands-on and experimental.

What these well-meaning reformers often ignored, however, was the inherent conflict between freedom and compulsion in mass schooling. One cannot be truly free within a mandatory, coercive system of social control.

In 1962, just over a century after the initial onset of state-controlled compulsory schooling, Paul Goodman wrote his scathing treatise, Compulsory Mis-education, describing the key failures of compulsory schooling. He wrote that "education must be voluntary rather than compulsory, for no growth to freedom occurs except by intrinsic motivation. Therefore the educational opportunities must be various and variously administered. We must diminish rather than expand the present monolithic school system."

Even as social reformers ranging from A.S. Neill (Summerhill, 1960) to John Holt (How Children Fail, 1964; How Children Learn, 1967) to Ivan Illich (Deschooling Society, 1970) wrote about the serious problems with forced schooling, compulsory education laws tightened and expanded worldwide in the latter half of the 20th century.

The United Nations Declaration of the Rights of the Child (adopted by the UN General Assembly in 1989 and ratified later by all UN member nations except for the United States) asserts: "The child is entitled to receive education, which shall be free and

compulsory." According to the U.N. every child has a right to a forced education, mandated by law and compelled by the state.

Empowering Parents

Today, as compulsory schooling consumes more of a child's life than ever before, beginning in toddlerhood and extending into late-adolescence for much of each day and year, many parents and educators are recognizing the disconnect between forced schooling and freedom. Increasingly, they are choosing – or creating – alternatives to school.

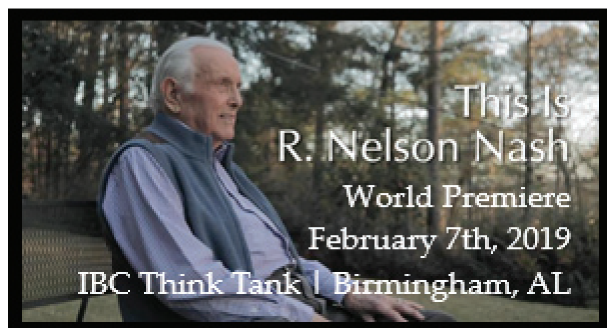
A rising number of "free schools" and Sudbury-type democratic schools, like those promoted by A.S. Neill, are opening nationwide, enabling young people to direct their own education free from coercion.

Homeschooling is booming, and the philosophy of unschooling, or self-directed education, advocated by John Holt and others is growing in popularity and influence. Lawmakers in some states are urging a repeal of antiquated compulsory schooling laws, and are re-empowering parents with more education choice measures.

These are promising signals of a quiet exodus from mass schooling, as more people realize that freedom and compulsion make strange bedfellows.

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, *Unschooled: Raising Curious, Well-Educated Children Outside the Conventional Classroom* (Chicago Review Press). Follow her writing at Whole Family Learning.

This article first appeared on Fee.org



February 6-7, 2019

IBC Think Tank Symposium

The IBC Think Tank returns as the premier event for those individuals that are passionate about Infinite Banking. This is where financial paradigm thinkers come to share, learn and celebrate our movement.

The think tank is scheduled for February 6-7 (Wednesday-Thursday), 2019, and will be held in Birmingham Alabama.

This event is invitation only for ***IBC Practitioner members, IBC Practitioner-Students***, and ***invited guests***.

Invited Guests? Yes, the Think Tank is open so that our membership can bring guests. A guest can be a client, an employee, a business associate, or interested financial professional. Caveat, if the guest is a financial professional, they are only allowed to come in a guest status one time.

If you are interested in attending, feel free to contact me.

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Authorized 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:

- David Lukas - North Little Rock, Arkansas
- Gary Sund - Saugus, Massachusetts
- John Urbik - Gilbert, Arizona
- Kim Butler - Mount Enterprise, Texas
- Sonda Frattini - Charlotte, North Carolina
- John Montoya - Dublin, California
- Justin Craft - Birmingham, Alabama
- John Blalock - Birmingham, Alabama
- Kenneth Shapero - Boca Raton, Florida
- John Burns - Algona, Iowa

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

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

Nelson's Favorite Quotes

"Liberty is the essential basis, the sine qua non, of morality. Morality can only exist in a free society, it can exist to the extent freedom exists." Henry Hazlitt

"'Freedom to'" is a guarantee that no one, including the government, will be allowed to interfere with one's freedom." Henry Hazlitt

"The future of human liberty...means the future of civilization." Henry Hazlitt