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INFINITEBANKING.ORG/BANKNOTES

NELSON NASH, FOUNDER
RNNASH31@GMAIL.COM

DAVID STEARNS, EDITOR
DAVID@INFINITEBANKING.ORG

How Safe Are Insurance Companies?

by L. Carlos Lara

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The financial strength of the life insurance industry is impressive. Compared to commercial banks and investment firms, their solvency record has been nearly faultless even during hard economic times. While Americans witnessed Standard & Poor's Rating Services actually downgrade the long term credit rating of the United States in 2011 with a negative outlook¹, the life insurance industry not only survived the 2008 financial crisis, it emerged from the Great Recession financially sound and continuing to issue policies, paying policyholder claims and servicing in-force business. This is not to say that life companies are totally immune to failure. Quite the contrary, in any competitive marketplace you will find financial impairments, including failures—they are inevitable. More to say that the number of failures in the life insurance industry spanning a period of nearly 200 years is small contrasted to other financial intermediaries in the U.S. economy. Even so, with the few companies that have actually failed, recovery to policyholders has been substantial. "In the more recent insolvencies more than 90 percent of policyholder benefits have been recovered in full."² Many of these insurer's financial problems were solved without public knowledge and often a friendly merger or acquisition resulted.

The secret to this impeccable record stems from the industry's long history of conservative financial management in addition to the layers of solvency

surveillance methods employed by the industry, third-party analysts, and state regulators that work to ensure a financially healthy insurance industry. In this *LMR* article we will cover some of the more relevant tools used by state insurance regulators to monitor these secure financial enterprises. In the paragraphs that follow I hope to be able to answer the question that most policyholders, including myself, really want to know: "What happens to my insurance cash values and benefits in a worst case scenario?"

Policyholders Come First

As stated previously in other *LMR* articles related to this subject (see the *LMR Archives* at www.lara-murphy.com), the life insurance industry, like most financial intermediaries in the U.S., is highly regulated. However, unlike the commercial banking industry's *solvency monitoring tools* that aim to prevent risks to the entire banking system, *insurance solvency monitoring* is focused primarily on protecting the policyholders. As the owner of several insurance policies that objective is comforting.

Additionally, we have often stated that unlike most other financial institutions in our economy, the insurance industry is regulated at the state level rather than at the federal level. This form of decentralization may seem odd to many readers since most of us are aware that state laws differ from one another. However, this is how it has worked in the insurance industry dating back to the early 1900s. An insurance commissioner,³ either elected or appointed by the Governor, enforces each state's body of insurance laws. Insurers wishing to conduct business in all 50 states must be licensed in each state and must comply with 50 different state's requirements. Regulatory uniformity among the 50 states is achieved by and through the *National Association of Insurance Commissioners (NAIC)*,⁴ a

trade organization composed exclusively of insurance commissioners from each state.

The objective of insurance commissioners, in addition to bringing about nationwide regulatory consistency and protecting the public's interest, is to "strive to detect financially troubled companies early, take corrective action to restore them to financial health when possible, and minimize the negative repercussions to policyholders of the financial failures that do occur."⁵ Please note that, once again, the emphasis is in protecting the policyholders. Financial professionals typically know this important information, but often neglect sharing this with clients and prospects, forgetting that for the average American these regulatory differences many times represent completely new revelations to their understanding of the life insurance industry. These distinctions can be immensely helpful in properly understanding the mechanisms that safeguard the public's money, which in many cases is their life's savings. If advisors are to give clients a full range of essential advice then providing this level of information to the public should not be overlooked.

Risk-Based Capital Requirements

There are several important solvency monitoring tools used by insurance commissioners and their staff, but the one solvency regulation that should be singled out as the most important is a life insurance company's net worth (the excess of assets over liabilities). This topic too has unique distinctions not commonly found with other financial institutions. To be precise, it is imperative to understand that the principle liabilities on life insurance balance sheets are actually *policy reserves*. In last month's *LMR* article we learned that insurance companies follow a very conservative strategy of matching assets to their long-term liability commitments known as "*asset liability matching*." But here we mean specifically that state regulators require *additional capital cushions* for all present and future liabilities by mandating an overstatement of future expected claim costs.

"For example: the mortality rates required to be used in reserve calculations are much greater than those

*actually experienced by insurers. This fact results in reserves being higher than they would be were realistic mortality assumptions used. In effect, this requirement means that insurers ordinarily have some surplus or cushion embedded within their liabilities."*⁶

Still yet another layer of conservatism is found in the limitations regulators place on the quality and quantity of assets to be purchased by insurers. This summons special focus on their valuation. A 2012 study of the Life Insurance industry conducted by the Federal Reserve Bank of Chicago revealed that 74% of assets were in investment-grade bonds with 44% being corporate bonds.⁷ The study was an impressive indicator of a financially solid insurance sector. In fact, riskier investments, especially for market sensitive insurance products, are required by law to have an *additional* increase of policy reserves. This emphasis on a stockpile of capital reinforcements with regards to the management of insurance companies is hard to ignore.

In addition to these mandates, state regulators also require life insurers to use a completely different method of accounting standards known as *Statutory Accounting Principles* (SAP). What makes this form of accounting so important is that the assessment emphasis is placed squarely on an enterprise's solvency rather than on the value of a company as an ongoing concern. It allows regulators to analyze more stringently these extra reserve requirements. Needless to say SAP financial statements are more conservative than *Generally Accepted Accounting Principles* (GAAP) commonly used by all other U.S. corporations.

Finally, these regulatory methods all come together in the implementation of the NAIC's Risk-Based Capital (RBC) model law that evaluates the adequacy of each insurer's *surplus* (with surplus being synonymous with *capital*). The riskier an issuer's operations are the larger the amount of capital it is made to hold. An insurer that invests in low-grade bonds exposes itself to greater default risk and therefore it is required to hold more surplus than one that invests in high-grade bonds as mandated. This very important law spells out several contingency risks of life insurers and then

makes use of a complex formula with several risk-based capital ratios that have certain thresholds. A ratio below the required threshold triggers progressively more intrusive actions by regulators that help identify inadequately capitalized insurers. In other words, above the ratio threshold there is “no-action,” but as an insurer moves below the threshold there is first the “*company action level*,” followed by the “*regulatory action level*,” then the “*authorized control level*,” and finally the “*mandatory control level*,” which is the regulatory seizure of the company. Through this process regulators are able to detect financially troubled companies much earlier and move quickly to rehabilitate them.

Before we discuss what regulators actually do to a financially impaired insurer once they find one, there are two other important tests or regulatory restrictions placed on life insurance companies that should be mentioned in the interest of assuring the reader of the insurance sector's financial solidity.

Cash-Flow Testing and Dividend Restrictions

Life insurance companies are required, as part of their statutory filings, to model thousands of economic scenarios to ensure that their assets and future cash-flows provide enough liquidity to provide policyholder obligations. These modeling scenarios also have mandatory cash-flow thresholds. Consequently, additional reserves will be required if they do not meet these points of entry. When we hear and read that the insurance companies had far fewer failures than commercial banks and other investment firms even during the Great Depression of the 1930s, these cash flow management efforts within the insurance industry explain why they were able to survive these major economic downturns.

More importantly, the states impose restrictions on any money transfers, such as dividends, to their parent holding companies or other affiliates. Additionally, all the assets, reserves, and capital/surplus must be maintained by the life insurance subsidiary and be completely separated from the group's other funds and obligations. That's another way of saying that there is effectively a wall between a life insurance subsidiary

and its parent company and affiliates, which mostly operate in the federally regulated markets. Although money transfers are permitted, state regulators must approve any money transfers that exceed certain limits that may potentially damage the financial strength of the life company. It is because of this regulation that we can now understand why the assets within AIG's life insurance subsidiaries remained separated and did not require taxpayer bailout money. Even if the AIG holding company and conglomerate had been allowed to fail, the life insurance subsidiaries would have been financially insulated and safe. As policyholders we could not have a better example of the financial fortitude and conservatism of the life insurance industry than AIG, whose temporary misfortune occurred in our own day and time.

The NAIC has several other important solvency surveillance tools which we cannot cover in detail here, but they include annual *Audited Financial Statements*, *Financial Analysis Solvency Tools (FAST)*, *Insurance Regulatory Information System (IRIS)*, *Onsite Financial Examinations*, *Professional Third Party Oversight (including rating agencies)*, and several forms of *Informal and Formal Actions* by regulators, all of which serve to establish proper incentives and safeguards to keep the number of insurer insolvencies to a bare minimum.

Of course, long before the regulators have to step in, managers running insurance companies know if their business is heading into financial trouble and take voluntary action to reverse their course. These steps may include such measures as expense cutting, selling pieces of their business, purchasing relief reinsurance, exploring merger possibilities or trying to sell their company to another more financially sound enterprise. Fortunately many of these options do in fact work with minimal disruption to policyholders. However, occasionally there is that one company that slips beyond the rehabilitation stage. In the past some of these insurers have been household names, but generally they are small companies. The course of action taken by regulators against these insolvent entities represents for policyholders the *worst-case scenario* or what we may describe as the *bottom line*

to a life insurance company that must be seized and dismantled.

Liquidation— The Last Straw

Before assessing the outcome of this final phase, the reader should realize that although the insurance industry is highly regulated, it must pass the “market test” on its own merits, in contrast to commercial or investment banks that can look to the “*lender of last resort*,” (the Fed), when they make poor decisions. The FDIC which protects bank deposits states on its website that it is backed by the full faith and credit of the U.S. Government. However, in light of the recent Dodd-Frank Act this guaranty has been called into question. The point is that life insurance companies make no such claims to the public. State governments do not provide insolvent life insurers taxpayer money to solve their financial difficulties. Life companies, like all other corporations on the open market, operate in a competitive profit and loss environment. They have to provide their own safety nets to protect their customers. But from what we have learned already on how life insurance companies are conservatively managed, even a failed insurer probably has more assets to distribute or sell than your typical financially insolvent company. This may ultimately explain why the recovery to policyholders is historically high and the failure rate is so low.

The authors of the American Bar Association reference book used in the writing of this paper felt comfortable enough to state that “*the average policyholder is highly unlikely ever to be required to deal with the insolvency of a life insurer.*”⁸ It is true that there are several options and plenty of lead time to exit or transfer out of an insurance carrier if absolutely necessary. But though they may be minimal, unfortunately failures do occur. When it is found inadvisable that an insurer should be rehabilitated a “*conservation order*,”⁹ or liquidation order, is granted to the insurance commissioner to move the company toward the final closing of operations. The insurance commissioner, acting in a similar role to a receiver in bankruptcy, is given full title to the company’s assets and makes final settlement of all obligations. The

following ***distribution priority*** is mandatory by law and it is executed accordingly.

- *Cost of Administration— first*
- *Employee Salaries— second*
- ***Policyholder Claims***
- *All Other Creditors*
- *Shareholders —last (in the case of Stock Companies)*

What is important to recognize in this final stage is that once the insurance commissioner becomes involved as a receiver he will be focused intensely on conserving assets on behalf of the policyholders. However, triggered simultaneously with the granting of the commissioner’s conservation order are the ***Guaranty Associations***. This is an indemnity organization that functions in the same way the FDIC works with commercial banks, but without federal government support. Financed with the assets of the failed insurer and the proceeds from an assessment system funded by other solvent life insurers, the guaranty association begins immediately to provide coverage and benefits to the policyholders of the failed company. They will also actively transfer policies to other insurers and generally assume the role of an ongoing insurer or they will honor cash benefits to those that want out. Although the guaranty association has statutory indemnification limits, policyholders can also make a priority claim against the assets of the liquidated insurer for any claims not paid by the guaranty associations.

*“While these laws vary somewhat from state to state, most states provide for guaranty association payment amounts up to these limits.”*¹⁰

The reader should check for the actual limits in their own state because some are actually higher.

- \$300,000 in life insurance death benefits;
- \$100,000 in cash surrender or withdrawal value for life insurance;
- \$100,000 in withdrawal and cash values for annuities;

- \$100,000 in health insurance policy benefits

All 52 insurance guaranty associations are members of the *National Organization of Life and Health Insurance Guaranty Associations (NOLHGA)*¹¹ and work together to provide continued protection and support for policyholders.

Conclusion

The near invincibility and fortitude of the life insurance industry has been underscored repeatedly in this article because of the impressive solvency record it possesses. Commercial banks and investment firms have not been able to match this performance. The secret to the life insurance industry's financial strength lies in their conservative management style that places such great emphasis on policy reserves. It's as though they are made to operate with a built-in capital cushion. For this reason few insurers ever fail and even in the rare cases when they do, recovery to policyholders is substantial. That's the good news of this article and why my personal assets are concentrated in the insurance sector.

However, putting a positive spin on an article that ultimately discusses what happens to policyholders when an insurer actually fails is admittedly difficult. The truth is that when a policyholder's insurance company actually fails, it makes no difference to him or her how impressive all these statistics are. A failed life insurance company that has one's insurance coverage and benefits is going to be a problem no matter how you look at it. Even though one may not actually suffer a complete financial loss in the end, there will be uncertainty, delays, and just plain aggravations. None of these makes for a pleasant experience.

Since failures in any competitive marketplace are inevitable we should simply stress that buyers should be vigilant in their initial selection of carriers. Study carefully the rating agency reports provided by the company and contract with only the best rated. It can also be wise to place needed insurance coverage with several insurers instead of putting all your eggs in one basket. Finally, be just as vigilant in the selection of your agent. Choose qualified financial professionals

who will provide you with the full range of financial advice including any early warnings and escape routes if financial problems with a carrier are imminent. This will add an additional layer of safety to your insurance purchase and relieve you of unnecessary stress. The Authorized IBC Practitioners listed at www.infinitebanking.org/finder is an excellent place to start.

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The Devastating Rise of Mass Schooling

by Kerry McDonald

For generations, children learned in their homes, from their parents, and throughout their communities. Children were vital contributors to a homestead, becoming involved in household chores and rhythms from very early ages. They learned important, practical skills by observing and imitating their parents and neighbors--and by engaging in hands-on apprenticeships as teens--and they learned literacy and numeracy around the fireside.

In fact, the literacy rate in Massachusetts in 1850 (just two years prior to passage of the country's first compulsory school attendance law there) was 97 percent.[1] According to the National Center for Education Statistics, the Massachusetts adult literacy rate in 2003 was only 90%.

In advocating for compulsory schooling statutes, Horace Mann and his 19th century education reform colleagues were deeply fearful of parental authority--particularly as the population became more diverse and, in Massachusetts as elsewhere, Irish Catholic immigrants challenged existing cultural and religious norms. "Those now pouring in upon us, in masses of thousands upon thousands, are wholly of another kind in morals and intellect," mourned the Massachusetts state legislature regarding the new Boston Irish immigrants.[2]

In his book, *Horace Mann's Troubling Legacy*, University of Vermont professor, Bob Pepperman Taylor, elaborates further on the 19th-century distrust of parents, particularly immigrant parents, and its role in catalyzing compulsory schooling. Pepperman Taylor explains that "the group receiving the greatest scolding from Mann is parents themselves. He questions the competence of a great many parents, but even worse is what he takes to be the perverse moral education provided to children by their corrupt parents." [3] Forced schooling was then intended as an antidote to those "corrupt parents," but not, presumably, for morally superior parents like Mann,

who continued to homeschool his own three children with no intention of sending them to the common schools he mandated for others. As Mann's biographer, Jonathan Messerli writes:

"From a hundred platforms, Mann had lectured that the need for better schools was predicated upon the assumption that parents could no longer be entrusted to perform their traditional roles in moral training and that a more systematic approach within the public school was necessary. Now as a father, he fell back on the educational responsibilities of the family, hoping to make the fireside achieve for his own son what he wanted the schools to accomplish for others." [4]

As mass schooling has expanded over the past 165 years, parental empowerment has declined precipitously. Institutions have steadily replaced parents, with alarming consequences. Children are swept into the mass schooling system at ever-earlier ages, most recently with the expansion of government-funded preschool and early intervention programs. Most young people spend the majority of their days away from their families and in increasingly restrictive, test-driven schooling environments. It is becoming more widely acknowledged that these institutional environments are damaging many children. Boston College psychology professor, Dr. Peter Gray, writes:

"School is a place where children are compelled to be and where their freedom is greatly restricted--far more restricted than most adults would tolerate in their workplaces. In recent decades, we have been compelling our children to spend ever more time in this kind of setting, and there is strong evidence (summarized in my recent book [Free To Learn]) that this is causing serious psychological damage to many of them."

For teenagers, the impact of mass schooling can be even more severe. Largely cut off from the authentic adult world in which they are designed to interact, many adolescents rebel with maladaptive behaviors ranging from anger and angst to substance abuse and suicide. As Dr. Robert Epstein writes in his book, *The Case Against Adolescence: Rediscovering the Adult in Every Teen*: "Driven by evolutionary

imperatives established thousands of years ago, the main need a teenager has is to become productive and independent. After puberty, if we pretend our teens are still children, we will be unable to meet their most fundamental needs, and we will cause some teens great distress.”[5]

It is time to hand the reins of education back to parents and once again prioritize authentic learning over mass schooling. Parents know best. They should be able to choose freely from a wide variety of innovative, agile education options, rather than rely on a one-size-fits-all mass schooling model. By positioning parents to take back control of their children's education--to reclaim their rightful place as experts on their own children--we can foster more education options and better outcomes for children and society.

[1] Total Massachusetts population in 1850 was 994,514; total illiteracy rate in Massachusetts in 1850 was 28,345

[2] Peterson, Paul E. *Saving Schools: From Horace Mann to Virtual Learning*. Cambridge, Massachusetts: Belknap Press, 2010, p. 26.

[3] Pepperman Taylor, Bob. *Horace Mann's Troubling Legacy: The Education of Democratic Citizens*. Lawrence, KS: University Press of Kansas, 2010, p. 33.

[4] Messerli, Jonathan. *Horace Mann: A Biography*. New York: Alfred A. Knopf, 1972, p. 429.

[5] Epstein, Robert. *The Case Against Adolescence: Rediscovering the Adult in Every Teen*. Sanger, CA: Quill Driver Books, 2007, p. 21.

Republished from Whole Family Learning.

Nelson's addition:

The most urgent necessity is, not that the State should teach, but that it should allow education. All monopolies are detestable, but the worst of all is the monopoly of education. —Frederic Bastiat

The Pope's Favorite Straw Man: "Individualism"

by Ryan McMaken

Since his election in 2013, Pope Francis has repeatedly attacked what he now calls the "liberal-individualist" or "neoliberal" vision of the world. With last week's

statement to the Pontifical Academy of Social Sciences, Francis has renewed the attack, but in the process has exhibited a number of political biases and demonstrably false assumptions.

This line of attack began almost as soon as Francis's pontificate began. In 2013, for example, he denounced “trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world...”

The Pope has also repeatedly suggested that he believes financial markets are essentially unregulated and that many of the the world's regimes are *laissez-faire* minimalist states. Obviously, such claims can easily be shown to be empirically false. The financial sector is one of the most heavily regulated worldwide, and the governments in the richest countries in the world — the United States included — spend approximately one-fifth of total GDP on government welfare programs alone. Indeed, when it comes to *government* spending on health care — not private spending, mind you — the United States — that supposed bastion of "free-market" thinking — is the fourth highest in the world.

The Pope's Imaginary World

The Pope also tends to indulge in a variety of other easily-disproved and empirically false claims. He claims, for example, that the world's poor are getting poorer, when all the available data points in exactly the opposite direction. Meanwhile, infant mortality rates among the world's poorest regions are falling, literacy rates are increasing, and access to clean water is increasing.

Any good Christian cleric, of course, will exhort the faithful to pay attention to the poor, and to act with radical amounts of charity. In his attempts to cater to certain political ideologies, however, the Pope merely betrays a deep ignorance of the basic facts surrounding economic trends in the world.

Now, with his latest attack on the "liberal-individualist" view, the Pope also appears to not understand the very ideology he attacks, and resorts to setting up straw

men about what is most easily described as laissez-faire liberalism — or simply "liberalism."

The Pope imagines that libertarianism is immensely popular, and then trots out all the usual accusations:

Finally, I cannot but speak of the serious risks associated with the invasion, at high levels of culture and education in both universities and in schools, of positions of *libertarian individualism*. A common feature of this fallacious paradigm is that it minimizes the common good, that is, "living well," a "good life" in the community framework, and exalts the selfish ideal that deceptively proposes a "beautiful life." If individualism affirms that it is only the individual who gives value to things and interpersonal relationships, and so it is only the individual who decides what is good and what is bad, then libertarianism, today in fashion, preaches that to establish freedom and individual responsibility, it is necessary to resort to the idea of "self-causation." Thus libertarian individualism denies the validity of the common good because on the one hand it supposes that the very idea of "common" implies the constriction of at least some individuals, and the other that the notion of "good" deprives freedom of its essence.

Ah yes, libertarianism is sweeping the universities and schools! Every where we look, artists and intellectuals tell us of the virtues of libertarianism. The "High levels of culture" are absolutely saturated with libertarian ideologues, Francis tells us.

It's clear that Francis doesn't exactly have his finger on the pulse of modern academia, and but even though he apparently knows little about where and with whom libertarianism is popular, let's take a look at what Francis seems to believe characterizes the ideology.

Libertarian thought, Francis says, involves a rejection of the common good, and strips human life of the idea that there is a "good life" outside the bare-bones human existence of the marketplace. There is no value in the "community framework" in the libertarian mind, Francis claims, since "the very idea of 'common'" must be rejected by libertarians because it constricts the freedom of at least some individuals.

In all of this, Pope Francis repeatedly misses the mark.

The "Homo Economicus" and "Extreme Individualism" Straw Men

In his critique, Francis appears to be merely repeating left-wing talking points that have been around for many years and rely on creating a crude cartoon version of libertarianism. Indeed, Francis is doing to liberalism what many critics of Christianity have been doing for centuries. As C.S. Lewis once noted about some critics of Christianity, "Such people put up a version of Christianity suitable for a child of six and make that the object of their attack." Francis is employing a similar method, albeit with a different target.

Here at mises.org, we've dealt with these claims before, thanks to George Monbiot at The Guardian who has taken a special interest in attacking the liberal ideology for causing every ill under the sun whether it be poverty or loneliness. Indeed, Monbiot has been something of a mini-Francis in promulgating the anti-liberal party line on how liberalism destroys all other human values and reduces human beings to a state of little more than profit-seeking, dead-eyed units of capital. Much of this begins with the idea that liberalism demands that our view of humanity be reduced to seeing everyone as a profit maximizing machine, known as "homo economicus."

Monbiot writes:

Our dominant ideology [liberalism] is based on a lie. A series of lies, in fact, but I'll focus on just one. This is the claim that we are, above all else, self-interested — that we seek to enhance our own wealth and power with little regard for the impact on others. Some economists use a term to describe this presumed state of being — Homo economicus, or self-maximising man. The concept was formulated, by J S Mill and others, as a thought experiment. Soon it became a modelling tool. Then it became an ideal.

The only problem here — a problem for both Monbiot and Pope Francis — is that the idea of "homo economicus" as a model for humans has always been

a straw man and has nothing to do with actual markets and liberal ideology.

Not surprisingly, archliberal Ludwig von Mises understood exactly this, writing in *Human Action*:

It was a fundamental mistake ... to interpret economics as the characterization of the behavior of an ideal type, the *homo oeconomicus*. According to this doctrine traditional or orthodox economics does not deal with the behavior of man as he really is and acts, but with a fictitious or hypothetical image. It pictures a being driven exclusively by "economic" motives, i.e., solely by the intention of making the greatest possible material or monetary profit. Such a being does not have and never did a counterpart in reality; it is a phantom of a spurious armchair philosophy. No man is exclusively motivated by the desire to become as rich as possible; many are not at all influenced by this mean craving. It is vain to refer to such an illusory homunculus in dealing with life and history.

Every insightful liberal theorist — Mises included — has fully accepted that human beings have motivations and values outside the marketplace, and no one is — nor should they be — motivated strictly by profit maximization.

In reality, human society is extremely varied and complex. Culture, religion, ethnic identity, language, and a host of other variables exist outside of markets, and no respectable liberal claims that markets or the pursuit of monetary profit should eclipse all these other factors that influence human values.

Liberalism has never been in conflict with these facts about human nature and human society. But, for the anti-market ideologue, such as Monbiot and Francis, liberalism somehow dictates how everyone should live their daily lives, and thus makes us lonely and despairing in the process.

Monbiot continues:

There are plenty of secondary reasons for this [loneliness], but it seems to me that the underlying cause is everywhere the same: human beings, the ultrasocial mammals, whose brains are wired to

respond to other people, are being peeled apart. Economic and technological change play a major role, but so does ideology. Though our wellbeing is inextricably linked to the lives of others, everywhere we are told that we will prosper through competitive self-interest and extreme individualism.

This is simply another way of stating Francis's thesis that liberalism trashes the idea of a "good life" outside of the market activity.

Again, this whole argument relies on the "extreme individualism" caricature of liberalism.

The very idea stems from a (possibly willful) misunderstanding of the difference between methodological individualism and individualism in *practice*.

This is especially unforgivable for a Catholic cleric like Francis since Catholic philosophers and theologians were pioneers in emphasizing the importance of the individual. That is, Christian theology is closely connected to the idea of an individual's *personal* relationship with God, and that a person is responsible for his own actions and moral choices.

Many strains of liberalism — which draw heavily on Christian ideas of individualism and morality — employ a similar sort of methodological individualism in that only individuals make choices. Moreover, human beings derive their rights from their status as individual human beings and not as members of a group, whether an ethnic group or a state.

None of this, however, suggests that people must be individualistic in lifestyle or that human beings must reject the idea of living in community with others.

After all, it is entirely consistent with the ideas of liberalism to live in a large extended family, to join a commune, or live in a densely-populated urban setting with others. All that liberals ask is that the decision to live a certain way is made *voluntarily* and without being coerced. A person commits no illiberal act when he gives away all his possessions to live in a monastery shared with others. There is nothing contrary to liberalism in offering free room and board to strangers or family members. There is no group or

individual activity that is verboten by liberalism so long as the participants are cooperating freely.

In fact, Mises — who has been attacked by Monbiot for his “neoliberalism” — *assumed* that individuals would come together to achieve common goals. In *Human Action*, Mises notes that “Every step by which an individual substitutes concerted action for isolated action results in an immediate and recognizable improvement in his conditions.”

Moreover, according to Mises,

The advantages derived from peaceful cooperation ... are universal. They immediately benefit every generation ... [f]or what the individual must sacrifice for the sake of society he is amply compensated by greater advantages.

Of course living cooperatively and seeking a “common good” in solidarity with others brings many advantages, materially and otherwise. Virtually no one denies this except some anti-social misanthropes who can hardly be blamed on any particular ideology.

So where is this liberalism-inspired rejection of community and the common good that Francis imagines exists out there sweeping the globe? It doesn't exist.

If Francis *does* wish to identify institutions that breed conflict, poverty, war, and social disintegration, he'd do much good by turning his attention to states, to central banks, and to the global machinery of coercion and war that works daily to undo the great progress being made every day thanks to markets and other forms of peaceful and voluntary cooperation.

Nelson added: Most of the harm in the world is done by good people, and not by accident, lapse, or omission. It is the result of their deliberate actions, long persevered in, which they hold to be motivated by high ideals toward virtuous ends. — Isabel Paterson

Why Do People Become Communists, and Why Do They Stick With It?

by Jeffrey A. Tucker

For as long as I can remember, I've puzzled about why people become communists. I have no doubt about why someone would stop being one. After all, we have a century of evidence of the murder, famine, and general destruction caused by the idea. Ignoring all this takes a special kind of willful blindness to reality.

Even the theory of communism itself is a complete mess. There is really no such thing as common ownership of goods that are obviously scarce in the real world. There must be some solution to the problem of scarcity beyond just wishing reality away. Perhaps ownership and trade? Slogans and dreams are hardly a suitable substitute for a workable program.

But how communism would work in practice is not something they want to talk about. They just imagined that some magical Hegelian shift would take place in the course of history that would work it all out.

So if there is no rational case for communism as such, why do people go for this stuff?

The Red Century

The New York Times has been exploring that issue in a series of remarkable reflections that they have labelled Red Century. I can't get enough, even the ones that are written by people who are—how shall I say?—suspiciously sympathetic to communism as a cause.

The most recent installment is written by Vivian Gornick. She reflects on how her childhood world was dominated by communists.

The sociology of the progressive world was complex. At its center were full-time organizers for the Communist Party, at the periphery left-wing sympathizers, and at various points in between everything from rank-and-file party card holders to respected fellow travelers....

When these people sat down to talk, Politics sat down with them, Ideas sat down with them; above all, History sat down with them. They spoke and thought within a context that lifted them out of the nameless, faceless obscurity into which they had been born, and gave them the conviction that they had rights as well as obligations. They were not simply the disinherited of the earth, they were proletarians with a founding myth of their own (the Russian Revolution) and a civilizing worldview (Marxism).

While it is true that thousands of people joined the Communist Party in those years because they were members of the hardscrabble working class (garment district Jews, West Virginia miners, California fruit pickers), it was even truer that many more thousands in the educated middle class (teachers, scientists, writers) joined because for them, too, the party was possessed of a moral authority that lent shape and substance, through its passion for structure and the eloquence of its rhetoric, to an urgent sense of social injustice....

The Marxist vision of world solidarity as translated by the Communist Party induced in the most ordinary of men and women a sense of one's own humanity that ran deep, made life feel large; large and clarified. It was to this clarity of inner being that so many became not only attached, but addicted. No reward of life, no love nor fame nor wealth, could compete with the experience. It was this all-in-allness of world and self that, all too often, made of the Communists true believers who could not face up to the police state corruption at the heart of their faith.

Sounds fascinating, if bonkers (Marxism is hardly a "civilizing worldview"). It sounds less like an intellectual salon of ideas and more like a religious delusion. Those too can be well intentioned. The key here is a dogmatic ideology, which serves as a kind of substitute for religion. It has a vision of hell (workers and peasants exploited by private-capital wielding capitalist elite), a vision of heaven (a world of universal and equal prosperity and peace), and a means of getting from one to the other (revolution

from below, as led by the vanguard of the proletariat).

Once you accept such an ideology, anything intellectual becomes possible. Nothing can shake you from it. Okay, that's not entirely true. One thing can shake you of it: when the leader of the cult repudiates the thing you believe in most strongly.

Khrushchev's Heresy

She was 20 years old in 1956, when Nikita Khrushchev spoke to the Soviet Communist Party about the crimes of Stalin. Apparently the unrelenting reports of famine, persecution, and mass death, from the early years of Bolshevik rule – and even the revelation of the Hitler-Stalin pact – would have demoralized them earlier. But no:

The 20th Congress report brought with it political devastation for the organized left around the world. Within weeks of its publication, 30,000 people in this country quit the party, and within the year it was as it had been in its 1919 beginnings: a small sect on the American political map.

Amazing.

The Early Reds

And speaking of this small 1919 sect, I'm reminded of one of my favorite movies: *Reds* (1981). I could watch it another 20 times. It explores the lives of the American communists of the turn of the 20th century, their loves, longings, and aspirations. The focus is on fiery but deluded Jack Reed, but it includes portraits of a passionate Louise Bryant, the gentile Max Eastman, an edgy Eugene O'Neill, and the ever inspiring Emma Goldman.

These people weren't the Progressives of the mainstream that history credits with having so much influence over policy in those days. These were the real deal: the Communists that were the source of national frenzy during the Red Scare of the 1920s.

The movie portrays them not as monsters but idealists. They were all very talented, artistic, mostly privileged in upbringing, and what drew them to communism was not bloodlust for genocide but some very high ideals.

They felt a passion for justice. They wanted to end war. They opposed exploitation. They longed for universal freedom and maximum civil liberty. They despised the entrenched hierarchies of the old order and hoped for a new society in which everyone had an equal chance.

All of that sounds reasonable until you get to the details. The communists had a curious understanding of each of these concepts. Freedom meant freedom from material want. Justice meant a planned distribution of goods. The end of war meant a new form of war against the capitalists who they believed created war. The hierarchies they wanted to be abolished were not just state-privileged nobles but also the meritocratic elites of industrial capitalism, and even small land owners, no matter how small the plot.

Why be a communist rather than just a solid liberal of the old school? In the way the movie portrays it, the problem was not so much in their goals but in their mistaken means. They hated the state as it existed but imagined that a new "dictatorship of the proletariat" could become a transition mechanism to usher in their classless society. That led them to cheer on the Bolshevik Revolution in its early stages, and work for the same thing to happen in the United States.

The Dream Dies

Watching their one-by-one demoralization is painful. Goldman sees the betrayal immediately. Reed becomes an apologist for genocide. Bryant forgets pretending to be political and believing in free love, marries Reed, and tends to his medical needs before his death. O'Neill just becomes a full-time cynic (and drunk). It took Max Eastman longer to lose the faith but he eventually became an anti-socialist and wrote for FEE.

The initial demoralization of the early American communists came in the 1920s. They came to realize that all the warning against this wicked ideology – having been written about for many centuries prior, even back to the ancient world – were true.

Eastman, for example, realized that he was seeking to liberate people by taking from them the three things

people love most in life: their families, their religion, and their property. Instead of creating a new heaven on earth, they had become apologists for a killing machine.

Stunned and embarrassed, they moved on with life.

But the history didn't end there. There were still more recruits being added to the ranks, generations of them. The same thing happened after 1989. Some people lost the faith, others decided that socialism needs yet another chance to strut its stuff.

It's still going on today.

As for the Communist Party in America, most left-Progressives of the Antifa school regard the Party as an embarrassing sellout, wholly owned by the capitalist elite. And when we see their spokesmen appear on television every four years, they sound not unlike pundits we see on TV every night.

It would be nice if any article written about communism were purely retrospective. That, sadly, is not the case. There seem to be new brands of Marxian thought codified every few years, and still more versions of its Hegelian roots that take on ever more complex ideological iterations (the alt-right is an example).

Why do people become communists? Because human beings are capable of believing in all sorts of illusions, and we are capable of working long and hard to turn them into nightmares. Once we've invested the time and energy into something, however destructive, it can take a very long time to wake us up. It's hard to think of a grander example of the sunk-cost fallacy.

Jeffrey Tucker is Director of Content for the Foundation for Economic Education.

Nelson added: Here I encounter the most popular fallacy of our times. It is not considered sufficient that the law should guarantee to every citizen the free and inoffensive use of his faculties for physical, intellectual and moral self-improvement. Instead, it is demanded that the law should directly extend welfare, education, and morality throughout the nation. This is the seductive lure of socialism. And I repeat: these two uses of the law are in direct contradiction to each other. — Frederic Bastiat 1800-1850

Raise an American Adult

By Ben Sasse

We all know the noun *adult*. But I was perplexed last year to hear the new verb to adult. In social media, especially on Twitter and Instagram, it birthed a new hashtag: #adulting. As in: “Just paid this month’s bills on time #adulting,” or “Decided I couldn’t watch Netflix 8 hours straight and went to the grocery store instead #adulting.” It even got a nomination from the American Dialect Society for the most creative word of 2015.

“Adulting” is an ironic way to describe engaging in adult behaviors, like paying taxes or doing chores—the sort of mundane tasks that responsibility demands. To a growing number of Americans, acting like a grown-up seems like a kind of role-playing, a mode of behavior requiring humorous detachment.

Let me be clear: This isn’t an old man’s harrumph about “kids these days.” I still remember Doc Anderson standing in the street in 1988, yelling at me to slow down as I drove through his neighborhood in our small Nebraska town. I was 16 and couldn’t stand that guy. Years later, when I had children of my own, I returned to thank him. Maturation.

What’s new today is the drift toward *perpetual* adolescence. What’s new is seeing so much less difference now between 10-year-olds and young adults in their late teens and early 20s.

As many parents can attest, independent adulthood is no longer the norm for this generation. Data from the Pew Research Center show that we crossed a historic threshold last year: “For the first time in more than 130 years, adults ages 18 to 34 were slightly more likely to be living in their parents’ home than they were to be living with a spouse or partner in their own household.” Fully one-quarter of Americans between 25 and 29 live with a parent—compared with only 18% just over a decade ago.

A great many factors have contributed to this shift toward perpetual adolescence. The economy has something to do with it, of course—but social and cultural developments do too. The list of culprits

includes our incredible wealth and the creature comforts to which our children are accustomed; our reluctance to expose young people to the demands of real work; and the hostage-taking hold that computers and mobile devices have on adolescent attention.

Our nation is in the midst of a collective coming-of-age crisis. Too many of our children simply don’t know what an adult is anymore—or how to become one. Perhaps more problematic, older generations have forgotten that we need to teach them. It’s our fault more than it’s theirs.

My wife, Melissa, and I have three children, ages 6 to 15. We don’t have any magic bullets to help them make the transition from dependence to self-sustaining adulthood—because there aren’t any. And we have zero desire to set our own family up as a model. We stumble and fall every day.

But we have a shared theory of what we’re aiming to accomplish: We want our kids to arrive at adulthood as fully formed, vivacious, appealing, resilient, self-reliant, problem-solving souls who see themselves as called to love and serve their neighbors. Our approach is organized around five broad themes.

Resist consumption. Although we often fail at it, Melissa and I aim to imprint in our children the fact that *need* and *want* are words with particular and distinct meanings. When our 6-year-old son points to a toy at Target and says, “I need that,” we let him know that “need” actually has nothing to do with it. His survival doesn’t depend on securing that toy.

In a 2009 study called “Souls in Transition,” Notre Dame sociologist Christian Smith and his colleagues focused on the spiritual attitudes and moral beliefs of 18- to 23-year-old “emerging adults.” They were distressed by what they discovered, especially about the centrality of consumption in the lives of young people. Well over half agreed that their “well-being can be measured by what they own, that buying more things would make them happier, and that they get a lot of pleasure simply from shopping and buying things.”

‘Maturity requires imagining life without material

wealth.'

But consumption is no route to long-term happiness, as a raft of studies by psychologists, neuroscientists and sociologists demonstrate. Part of learning to be an adult is figuring out that our real needs can be separated from the insistent call of our wants. Maturity requires imagining life without material wealth, resolving that we could be happy in such a state, and actually experiencing mild deprivation from time to time.

Parents can impart such lessons many ways. The occasional camping trip, off the grid, can teach the basic definition of shelter—and make the comforts of home look like the luxuries they are. You can shop differently too. One of our daughters is a serious runner, so we purchase high-quality shoes to protect her developing bones—but most of her other clothes come from hand-me-downs and secondhand shops.

We want our children to learn the habit of finding pleasure in the essentials of life and feeling gratitude for them. We'd like to think that, when they strike out on their own someday, they'll have a clear sense of what they really need.

Embrace the pain of work. Many of the same social scientists highlighting the emptiness of consumption point to a very different key to happiness: meaningful work. Over the years, I've found that just about everyone interesting I've ever met possesses a strong work ethic, focused on doing even humble jobs well, and they typically learned it early in life. They usually have a passionate answer to the question: "What was the first really hard work you did as a kid?"

'Character comes before credentials.'

Suggesting that our children should have similar experiences seems countercultural today. Strenuous, unpleasant work seems harsh, potentially scarring. Worse, for middle-class parents hoping to get their children into selective colleges, it might interfere with the "enrichment" activities that impress admissions committees. But character comes before credentials. If our children are to become real adults, they need to know that difficult tasks are things to be conquered, not avoided.

Last year, we sent one daughter to spend a month working on a cattle ranch. She was 14 and surprisingly eager to get her hands dirty. We left her with little advice other than to make us proud by working hard, to ask for coaching and never to let her bosses hear her complain.

Once she settled in, she would send regular text messages about what she'd done that day. It was smelly, wet, demanding work, but she reveled in it: Got an orphaned baby girl to take her whole bottle. (Also got tons of nose slime & snot on my jeans.)

I don't mean to suggest that there are no hard workers among young people now. But "work" is more than advancement in school. Our children need to appreciate not just the privilege they enjoy in being free from the demands of physical labor but also—especially—their own capacity to fix the messes that life will throw at them.

Start young: Send your 2-year-old to get your socks every morning. It creates a rhythm and pattern that can be easily upgraded to more complicated and "adult" tasks. Re-evaluate every service you're paying for at home and ask if your children could do it instead. Mowing is a good example; household repairs count too. Babysit together. Make your children learn to change diapers.

Connect across generations. Today, young people's lives are driven by one predominant fact: birth year. In person and online, teenagers hang out overwhelmingly with friends of the same year in school. Correspondingly, senior citizens live out their years in nursing homes where they interact mainly with their age peers.

A 2014 Boston Globe article neatly summarized much of the recent research on this question. One study found that, among Americans 60 and older, only a quarter had discussed anything important with anyone under 36 in the previous six months. And when relatives are excluded, the percentage drops to just 6%.

'Adolescents acquire vital social skills by interacting with people outside their peer bubble.'

This isolation is no way to raise responsible adults. The anthropologist Alice Schlegel, co-author of a classic study of 186 preindustrial cultures, concluded that age segregation is correlated “to antisocial behavior and to socialization for competitiveness and aggressiveness.” Social science confirms what parents know from watching older siblings care for younger ones: Adolescents acquire vital social skills by interacting with people outside their peer bubble.

There are many ways to make these connections. The simplest are activities like taking your children to bake cookies with an elderly neighbor or volunteering at a senior center. But the occasional visit isn't enough. We need to encourage our children to build lasting connections—some degree of friendship and familiarity—with older people who aren't members of the family.

Perspective is invaluable: It lets your children hear about previous eras, including those first hard jobs, and gives them a longer view of what it means to struggle with hardships and persevere.

Travel meaningfully. Decades ago, the historian Daniel Boorstin drew a distinction between the nobility of travel and what he saw as the boredom of touring, with its large groups and controlled itineraries. What he called “the lost art of travel” involved going out “in search of people, of adventure, of experience.”

When we travel this way, we subject ourselves to the vertigo that accompanies leaving familiar surroundings, customs, language and food. It's especially valuable for adolescents. Like hard work, it makes them appreciate not just the comfort of their own lives but the satisfaction of trying new and difficult things. It also forces them to look at the material nature of their lives. Do I really need so much stuff when I feel freer away from it?

Children will obviously not all have the same experiences as they learn about travel. Some of us come from more outdoorsy families; others come from wealthier families that can afford the airfare to fly overseas. “Where” isn't nearly as important as how.

The key is putting children into situations outside their comfort zone, seeing things they don't ordinarily see. And when you're done with your trip, don't just return immediately to everyday life. Pause to summarize the experience and reflect on it.

Become truly literate. Reading done well is not a passive activity like sitting in front of a screen. It requires attention, engagement and active questioning. Unfortunately, according to the Bureau of Labor Statistics, the average American now reads only 19 minutes a day—and the younger you are, the less you read.

That our young people take so little interest in reading is sad, but not just for them. It also keeps them from growing into the sort of engaged, responsible citizens our republic needs. America's founders understood literacy as a prerequisite for freedom and self-government, and we are paying the price today for failing to take that truth seriously.

The first step is to encourage them to become quantity readers. A friend introduced Melissa and me to a challenge called “The Century Club.” To be a member, you must read 100 books in a year. Quite a few people can read two solid books in a week, but knocking out almost two a week for an entire year is daunting.

With children, you have to start with light books to set them on the path to 100. But as they develop the habit of reading, you can add more challenging titles. Our children haven't yet hit a hundred in a year, but it has become a healthy, behavior-shaping goal.

Quantity is important, but quality is the bigger, long-term goal. When our girls were not yet teens, we let them pick just over half of the books in their sequence. Now we have them propose a handful of books for us to select from, and if the books aren't rigorous enough, we intervene more aggressively.

Mr. Sasse, a former college president, is the junior U.S. senator from Nebraska. This essay is adapted from his new book, “The Vanishing American Adult: Our Coming-of-Age Crisis—and How to Rebuild a Culture of Self-Reliance,” which will be published on May 16 by St. Martin's Press.

Comment by R. Nelson Nash — What a powerful — and essential message Senator Sasse has given us! Our world would be greatly enriched if every parent memorized this article. This is a beacon of light in a very dark world!

This Machine Sustains the Good Life

Jeffrey A. Tucker

Isabel Paterson (1886–1961) was one of the most erudite and widely educated thinkers to ever grace the world of libertarian ideas. *God of the Machine* is her masterwork. Its contents have not been sufficiently absorbed into the current intellectual world. It is one of those lost treasures, a book that you begin and your whole world stops. It is wise. It is prophetic. It has stood the test of time.

It first appeared in 1943 as the book that went against everything that the politics of the time were telling people to believe. We had been through more than a decade of the planning state, with government robbing people in order to help them. This was the period of history that prepared the way for the predatory politics that define daily life today. The experience of the New Deal prepared the way for wartime planning in ways that people today do not understand. But Paterson did.

The Guillotine

The phrase that this work contributed to the lexicon sums up her thesis: the humanitarian with the guillotine. The phrase condemns the use of a good and right impulse in our hearts – to wish for the well being of all – to support what is a violent and pillaging political system that subjugates the individual in the interest of the group.

The state assured the public that it had their best interests at heart. It would deliver jobs, food, security, progress and all wonderful things. And the masses were happy, for a time. But the economic recovery never came. Years went by. The New Dealers began searching for some way to cover their incredible failure and distract the population from the reality. The answer presented itself in the form of the draft,

the war, the wrecking of family and community — and, finally, mass bloodshed on all sides.

The God of the Machine blew the whistle on that entire trajectory and celebrated individualism as no one else had yet done. Albert Jay Nock considered this book to be the greatest thus far on the subject of American liberty. You can see in these pages the foreshadowing of what would later become a robust intellectual tradition in the United States. It is, in many ways, a founding document of the entire laissez-faire perspective in modern America.

The influence on Ayn Rand, Murray Rothbard, and so many others, is obvious to anyone attentive to the intellectual historiography of the time.

Rereading this book in preparation for release, I found myself stopping every few passages in delight and amazement at Paterson's prose and insights. She was clearly a genius and a woman of enormous courage.

How could this masterpiece have dropped from public consciousness? I don't have an answer to that mystery. Perhaps the public was not ready for its message in 1943. And after the war, a whole generation of writers and books dropped down the memory hole to make way for the new and reconstructed scions of the statist postwar culture.

What a tragedy, but one that is being rectified. I have a great sense of joy to be involved in presenting it through FEE to a new generation.

*Comment by R. Nelson Nash — Thanks, Jeffrey, for bringing this great lady to our attention. Several years ago I read *God Of The Machine* by Isabel Paterson, *Atlas Shrugged* by Ayn Rand, and *The Discovery of Freedom* by Rose Wilder Lane in succession. What a mind-blowing experience that was!*

For an answer to your question in your next to last paragraph (above) please see the quotation below by Isabel. I think it is because our politically controlled “educational system” doesn't want people to know!

Every politically controlled educational system will inculcate the doctrine of state supremacy sooner or later...Once that doctrine has been accepted, it becomes an almost superhuman task to break the

stranglehold of the political power over the life of the citizen. It has had his body, property and mind in its clutches from infancy. An octopus would sooner release its prey. A tax-supported, compulsory educational system is the complete model of the totalitarian state. — Isabel Paterson

Don't Fall Into the Low-Growth Trap

by John Tamny

Ruchir Sharma is the latest economist to embrace the popular notion that we – and the rest of the world – are unable to grow as we once did. Supposedly the "global economy has changed in ways that reduce growth," and because of the changes, subdued economic activity will be the structural norm going forward. That's the bad news for the congenital cynics desperately seeking validation of their pessimism.

But before we get to the good news, it's worth taking the time to unpack the why behind Sharma's pessimism. Specifically, he believes that in the past (between WWII's end and 2008) "the global economy was supercharged by explosive population growth, a debt boom that fueled investment and boosted productivity, and an astonishing increase in cross-border flows of goods, money and people." He got one out of three right.

Before the Boom

Sharma errs given his typically Keynesian presumption that the "debt boom" just happened, as opposed to it having logically being driven by a surge of production. Back to reality, people, businesses, and governments (sadly) only borrow money insofar as they can exchange it for real resources of the truck, tractor, computer, desk, chair, and human labor variety.

Sharma's commentary leaves out something substantial; that the "debt boom" was merely an effect of a production boom that resulted in abundant market access to goods and services. Only the private sector can create credit through increased production.

Sharma also laments that "banks are not expanding their lending." Ok, but then banks are an increasingly irrelevant source of credit. Most lending occurs well away from the anachronistic banking sector, particularly in the U.S. More important, banks have never been very dynamic, by design.

Figure that they lend out money in return for an income stream. They have no equity. Because they don't, and because their margins are very narrow, banks generally direct their funds toward the stable and known. That's all well and good, but surging economic growth is driven by surprise, by companies that are promising, but that also have good odds of failing.

Banks generally can't lend toward the concepts previously described, but as evidenced by all the economic activity in Silicon Valley, there's lots of non-bank finance focused on what's intrepid. And that's some good news that goes unmentioned by Sharma, that a reduction in bank lending has occurred in concert with growth in non-bank finance. Furthermore, and as will be explained in a bit, there's no economic law that says production will forever be subdued such that lending always will be.

Depopulation and Immigration

As for the "depopulation" that has Sharma all worked up (in his defense, birthrates inform future doom among economists in the way that earth temperatures have long fed world-is-ending gloom among scientists), there's nothing to his argument. It's empty. High birthrates don't signal prosperity any more than low rates signal economic desperation.

Indeed, a look at the list of the fifteen countries with the highest rates of fertility has zero economically powerful notables, but includes slow-growth nations like Nigeria, the Democratic Republic of Congo, Uganda, and Malawi. Yet among the bottom fifteen countries with the lowest fertility rates one can find Germany, Singapore, Hong Kong and South Korea, among others. Again, there's nothing to the birthrate story. At best, high fertility correlates with slow growth.

Sharma does, however, have a point with his lament about reduced trade and immigration. Immigration, whereby the most important form of capital (human) migrates to where its productivity will be maximized, is crucial to economic growth. The problem today is that more and more countries want to limit the inflow of strivers who've exited countries that suffocated their talents. This logically subdues growth as does a lack of open trade.

Open trade is crucial to economic growth for it gives workers a raise every single day, but of greatest importance, a globalized division of labor increases the odds of the individual specialization that powers productivity and rampant growth. When we're allowed to trade freely, the odds of us doing the work that elevates our skills the most increases exponentially.

So, to the extent that global migration and exchange have been slowed by governments, these developments would logically be a source of stagnation. At the same time, Sharma perhaps forgets that the ongoing rise of automation – think robots and other labor-saving technologies – will do for the world what immigration and cross-border trade used to. Figure that robots will increasingly spare precious human capital from wasted labor in favor of much more productive work.

As for immigration limits, the computer and internet increasingly make it possible for a computer programmer in Sausalito to work alongside a similar talent in Shanghai. Eventually we'll all be trading together, and working together. Robots, automation, computers, and WiFi signal this beautiful future. Sharma is right about trade and immigration, but his pessimism blinds him to how market forces are working around ridiculous government barriers.

Limits on What We Can Produce

Beyond capital flows, Sharma's broad argument isn't very compelling. Banks represent 15% of total U.S. credit, and the number is falling. Of much greater importance, real credit dynamism occurs away from banks. And then birthrates just don't matter. Sorry, but the 'new normal' is anything but. Booming economic growth is the perpetually normal state for free people, and as such the only barriers to growth are those that

limit our individual freedom to produce.

Of course, it's when we focus on that which limits individual production that we see the source of our stagnation. At the same time, we see just how simple it will be to attain stupendous growth. Just reduce the barriers to individual endeavor. In that case, income taxes penalize work. They should be lowered. Investment is the driver of increased individual productivity, so zero out the capital gains tax.

Government spending extracts precious resources from the constantly experimenting private sector, so reduce it. Regulation is the obnoxious conceit that says those who didn't rate jobs in certain industries can police those same industries, all the while sensing looming trouble spots before anyone else. In short, we're asking the impossible of regulators. If they could do what they're charged with doing, they'd be earning billions as private investors. Regulations shrink production without doing anything to enhance markets.

Money's sole purpose is as a measure facilitating exchange and investment. Nothing else. If every piece of paper currency in the world were vaporized today, nothing about the world's wealth status would be different tomorrow. Cheap, unstable money has modernly reduced the trade that informs all of our work, along with the investment that boosts our productivity.

Tear Down that Barrier

Stabilize money and watch production soar. Lastly, Sharma is right about the flow of goods and people, particularly so long as technology doesn't surmount them. So get rid of the barriers to exchange, along with the ones that limit human migration. They injure the people who aren't allowed to maximize their talents, along with the countries that would otherwise benefit from this talent maximization.

And having removed the various barriers, watch how production surges. With an increase in production, watch how lending goes skyward to reflect the staggering increase in goods and services on offer. Economics is blindingly easy, and the irony is that

the only barrier to economic growth is economists who can't see that individual freedom is always and everywhere the driver of raging growth.

Count Ruchir Sharma as the latest economist to fall into the mythical 'low growth' trap. There's no such thing. Free people grow. Period. We need less Sharmas and more freedom. Freedom equals growth. Always.

Reprinted from Real Clear Markets.

Comment by R. Nelson Nash — Regulations are nothing more than another form of taxation. They are written by bureaucrats — who are not elected — and are thoroughly imbued with the “little god syndrome.”

Birth Rates are at Historic Lows and Here's a Major Reason

Jeffrey A. Tucker

For 100 years, the US government has tracked the birth rate. It is now at historic lows. There are many reasons, but one has to do with the dramatic change in the way society regards the economic value of kids.

To illustrate the point, let's reflect on the continuing popularity of *Anne of Green Gables*, the 1908 book by Canadian writer Lucy M. Montgomery. Yes, it is charming, and ridiculously so. It's beyond me why the new Netflix rendering (*Anne with an E*) is getting bad reviews. It's probably because so many people are attached to the book and the myriad previous cinematic renderings. Still, I find the new one delightful in every way, and I've been thinking on precisely why.

Beyond the solid acting and timeless story of a brilliant orphan growing up and finding her way in the world, the show introduces us into a time gone by. It is set on Prince Edward Island sometime in the late 19th century, before cars, phones, and indoor temperature control. So, sure, that's different. So is the language and cultural mores.

The Status of Kids

That's not what truly strikes us, however. What is dazzling to watch is the completely different relationship between kids and adults that existed then.

The status of kids in society was unlike today.

They were aspiring adults and given as many responsibilities as they could handle within their range of competence, which was always shifting in the direction of more and more.

There was no Department of Labor and Department of Human Resources to "protect" them from living full lives. Kids in those days were regarded as valuable because they were tangibly productive. They worked, gained skills, and produced for their families or otherwise worked for businesses here and there. They were assets. As they gained skills, discipline, and a work ethic, they could become ever more valuable to their custodians and communities. This is a major reason why people wanted them. And the kids, in turn, were socialized to be grateful to their benefactors whether at home or work.

And notice from the story of Anne that a main job of kids in those days was to care for people in their aging years. So kids were valuable on both ends of the life spectrum: as co-workers when the kids are young and then as helpers as their custodians age.

What's different today? Now kids are mostly a financial cost and defined as such, because the law, educational system, and welfare state make it that way. Oh sure, people still love their kids. Emotionally and spiritually, we speak piously and beautifully of the infinite value of their lives.

And, of course, everyone agrees. There is a social status that comes with having kids and they can be an entryway to new friend networks.

And yet. Let's talk dollars and cents. When considering whether to have kids, people know that they will contribute little to household management, and nothing positive to the bottom line, and then they must consider how much they will have to spend. You can look it up on online cost calculators. For example, if you are married and want two kids in the American South, you are going to spend \$732K. That's a daunting figure, and that's before you start shelling out for college.

In return for which, they offer...the infinite value of

their very existence.

Is it any wonder that the birthrate has fallen to its lowest level in more than 100 years? Yes, there are other reasons having to do with technology and greater economic certainty. Still, if you forcibly reduce the value of anything, and people have any choice over it, they will produce less and less of it. This is precisely what has happened to the status of children over the last century.

Why Would You Want to Be Anne?

How did this happen? Let's look at the story of Anne.

Anne is 13 years old when the story starts. She has lived a very hard life due to circumstances beyond her control. She has lived in the orphanage but gets a new start when a family adopts her, in order to get a obtain a worker who only needs room and board. The family asked for a boy from the orphanage but there was some mix up and they sent a girl. The adoptive family (an aging brother and sister) reluctantly agree to keep her only after she charms them and proves that she can bring productivity to the household. She shows off her skills, among which include her incredible erudition.

It was a much poorer world, obviously, and only the rich kids could afford to be in school full time. Anne was mostly self taught but she loved reading, dreaming, fantasizing, imagining. She read whenever she could, by candlelight, exhausted at the end of the day. And she was brilliant, even without focus or being institutionalized.

A reason this story has riveted children for so many generations comes down to the challenges, opportunities, tragedies, and triumphs she experiences in an exciting, varied, interesting life – which is to say, a life in an economically free society. She was a child in a world that aspired for her to become an adult, and deal with actual adult-like tasks and responsibilities. Yes, that involved schooling but this was not forced and it was not the only purpose of her life. She could even drink wine!

Back then, kids were not nationalized by the state, their every move controlled by public institutions,

and forbidden from working by the government. They were challenged with as many adult responsibilities as they could handle. That Anne works hard, can do anything a boy can do, picks up vast skills, and her path of learning is largely unscripted is a real source of delight for readers and viewers. She proves herself up to the task.

What Changed?

Soon after the book was written, public policy concerning kids began to change. Public schooling was made nearly universal in the developed world. Private schooling began its long path of decline to the point that by mid-century they were operated either by churches or only available to the rich. These public schools entered on the trajectory of every government project: planned, managed from the top, treating every student as an unindividuated unit of an aggregate, soldiers in a kid army, each put through the paces for twelve years.

Then school was made compulsory in the Progressive Era. Families and kids had no choice. In such a world, would Anne have been adopted? Why would she be? Instead of realizing her value, she would have been stuffed into a holding cell for twelve years, and her caretakers would have been fiduciarly responsible for providing room and board with no compensation. There would have been no market for her person at all.

A couple of decades later, public policy went the full way. During the New Deal, "Child labor" was completely banned. It remains so today, with rare exceptions (you can be a child actor and you can work for your family business). Mostly kids are denied their inherent human rights to work and prevented from being valuable to others according to their own skills and desires.

The law books say you can work from 14 but the limits are too strict and the paperwork too long. Even at 16, there are jobs you can have and jobs you are allowed to accept. You aren't really free to earn money serving others until you are 18, by which time kids are socialized to want to do anything but that.

And all of this is done for their well being.

Then governments instituted Social Security, medical care for the aged, and publicly funded homes for the "retired." That lets kids completely off the hook for taking care of their parents. The inverse also becomes true: they are less valuable to parents because they are no longer necessary for end-of-life care.

The upshot is that public policy killed the value of kids in the world, denying their rights to choose, work, and serve others. Society literally decided to devalue them to the point that they are all cost when young and unnecessary when their caretakers are old.

It's even worse. Kids today are corralled into collectives defined by age, given an authority figure to lord over them and lecture them for 12 years, and the only job they are allowed to have is to cough back the information the teacher tells them, sitting in desks, day after day for the whole of their growing up.

When we discover that the kids are bored and misbehave, we stuff them full of drugs, belittle them, jail them for misbehavior, and finally turn them out into the world at the age of 18 with no skills, work ethic, or knowledge of what it means actually to succeed in life.

We no longer live in an agricultural or even industrial age that was physically grueling (the great excuse for why we stop allowing them remunerative work). In digital times, there are whole worlds of safe work that kids could do while learning and enjoying life. Kids would have such better lives. We just don't allow it.

We think Anne's orphanage was cruel. But she escaped because an adoptive family saw her value. She found her groove. At least she didn't grow up in today's regimented, regulated, exclusionary world from which there is no escape for any kids, ever.

Bring Back Green Gables

My own theory of why we love this book and can't get enough of the movies about a story so far back in time is simple: kids in those days were regarded by society as real human beings with rights and dignity and opportunity. They could live full and wonderful lives. They lived real lives as part of real life.

Their rights were not systematically violated by the law in the name of helping them. The Progressives came along and deployed the violence of the state to make their lives better, and here we are today.

Is it any wonder that we are nostalgic about the life of kids in those days? And is it any wonder that people have to think very carefully about producing them today?

Comment by R. Nelson Nash — There should never have been a Department of Labor and Department of Human Resources. Activity of this kind is nothing more than bureaucratic meddling in peoples lives. They create a problem in people's minds and then produce a "solution" to the problem they created. When will people catch on to their nonsense?

VISION

By Leonard E. Read

Note - Frequent readers of BANKNOTES are aware of my relationship with Leonard E. Read and my admiration for his works during his lifetime. In the following issues I will be sharing his book, VISION, one chapter per month. It was written in 1978.

What a privilege it was for me to know this great man! – R. Nelson Nash

Chapter 24

OUT OF EVIL: GOOD!

Try to find the good in the bad.

The good is always there.

- RUDOLPH STEINER

I choose to be an optimist rather than a pessimist, as related to our present politico-economic decline—and it is not because I am unaware of the decline. My stance is based on a series of exercises begun 20 years ago, Steiner's formula for self-improvement. This requires five minutes of concentration every day for six months—each month a new exercise.¹

In the fourth month one must contemplate a different bad thing each day until he finds something good in it. Interesting and encouraging, the good is always there! And five minutes is sufficient. One among countless

examples: The starling is a messy bird—bad! One day hundreds of them moved across our lawn picking from the soil the grubs of Japanese beetles; their destruction ended—good!

Now to the good that is coming to light as a result of the present decline into socialism. As Horace observed in Rome about 2,000 years ago:

Adversity has the effect of eliciting talents which in times of prosperity would have lain dormant.

Here is my way of paraphrasing the above as related to this thesis:

Bad notions have the effect of eliciting good ideas which, were all serene and to everyone's satisfaction, would stimulate but little if any mental activity. Dormancy!

Ever since the conclusion of those exercises two decades ago, I have been able to identify countless good and elevating ideas that would have lain dormant had it not been for the bad notions responsible for our decline. While I have featured this discovery—Steiner's, not mine—in all of my lectures on methodology, the inspiration for this essay is a letter just received from an Australian friend.

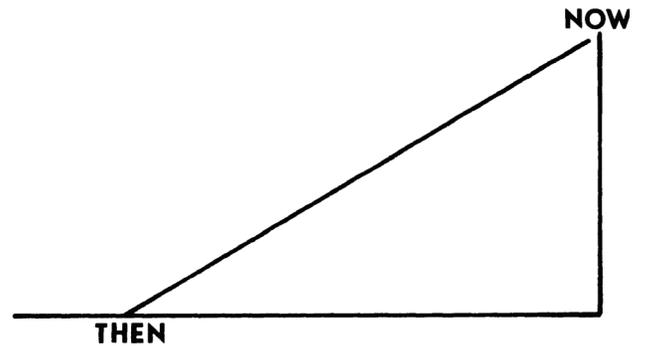
Somewhat unbelievably, Australia is in a steeper decline than the U.S.A. Wrote my friend, *"One of the good things about our present political mess is an increasing opportunity for me to discuss the ideas of liberty."* Were everything serene and to most people's satisfaction in that country, there would be nothing to evoke his splendid ideas. Were there prosperity, they would have lain dormant!

To put this thesis into focus, to demonstrate how there is always something good in everything bad, imagine a man born at the beginning of life on earth, and still living! By reason of such a life span, his frequency perception would differ from ours. To use a figure of speech, he would see only the forest and not the trees, whereas, we see the trees and not the forest.

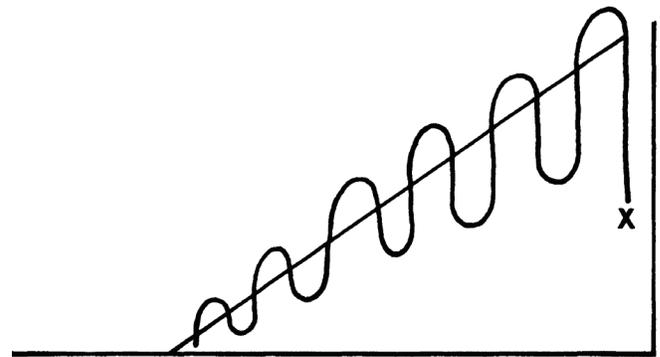
Let Walt Disney explain what I mean by frequency perception. He focused his camera on a rose lanting, flicking a motion picture film every day or so. When the plant had grown and the rose had bloomed, he put

this phenomenon—filmed over many weeks—on the screen so that viewers might witness the development in two or three minutes. That was a dramatic change in frequency perception.

Our imaginary man's frequency perception would be vastly different from ours. About 35 millennia ago, he would have observed a level of humanity known as Cro-Magnon man. From that ancient time until now he would have seen only the emergence of humanity and none of the detail—just the forest and not the trees. Symbolized, it would look something like this:



To dramatize the point, put a powerful magnifying glass on this line and have a look at its interior: the detail, the trees in the forest, a look at what a few individuals have seen during the past. The interior would show evolution and devolution in a sequence, evolution inching ahead over the millennia:



That X is to symbolize the present devolutionary position, not only in the U.S.A. but world wide—no exception! It's the mess we're in—the bad.

This raises the question: How possibly can any good be spawned from our present devolutionary situation? It is so bad—so evil—that many individuals who love

liberty do not see or even look for the good. Instead, they indulge in *combative tactics*—name calling, smearing and the like. Not an iota of constructive thinking! Or, if not so indulging, they give up the ghost, throw in the sponge. There is no hope; all is lost—so they erroneously conclude.

Parenthetically, combativeness is a belligerent rather than a peaceful tactic. The very essence of freedom is a peaceful way of life and *so must the tactic be*, that is, if we are to be blest by a return to freedom.

A peaceful tactic that works like magic? It is, as Steiner taught, to find the good in the bad. It is always there—a belief for which there are proofs galore.

Here is one among numerous reasons why I know there is always something good in everything bad. The demand for FEE Seminars is increasing beyond our ability to accommodate.

During the past year, we have conducted 23 from east to west—Georgia to Hawaii and in between. Aside from the Seminars at FEE, all have been sought by those interested in learning the freedom philosophy, not one promoted by us. What stimulates this yearning for learning? Nothing less than the bad we are experiencing! It is the current socialism that inspires a desire for understanding the freedom way of life, the bad that causes a search for the good—*on the part of a few*.

A few? Devolutionary slumps have quite a record of creating anti-agents—always an infinitesimal minority. But note this: On each occasion, it has been and will continue to be a matter of leadership. In every instance, one or two among the anti-agents will be up top, “at the head of the class,” as we say.

Christianity was led by the Perfect Exemplar. He had a dozen Disciples—anti-agents—spawned by the bad that was rampant at that time in history. The turnabout in England following the Napoleonic Wars—from mercantilism to the Industrial Revolution—was led by Richard Cobden and John Bright. They had a small number of coworkers: anti-agents. The same can be said about the American Miracle. A few of our Founding Fathers led the way to the most miraculous

politico-economic turnabout in all history!

Instead of lamenting the present devolutionary position, I applaud it. Why such an unorthodox attitude? Merely have a look at the devolutionary-evolutionary sequence. Each devolutionary slump serves as a springboard—an inspiration—that leads to the next evolutionary attainment. For proof, no more is required than a look at the historical record. Its instruction to us? Evolution, emergence, growth, awareness, perception, consciousness inching ahead as time goes on! Were it not for the stimulus to find the good which the bad evokes, humanity would still be at the Cro-Magnon level!

Back to the Seminars and their participants. Why are they present? It's the bad that's on the rampage! They have become anti-agents, searching for the good by reason of the evil.

A point that should be emphasized: Suppose you were in charge of the Cosmic Design. Would you pap feed the population—“money or favors from political office”—or would you give them obstacles to overcome? Obviously, you would choose the latter, for it is an observed fact that the *act* of overcoming leads to the *art* of becoming! Life has no higher purpose than rising to one's intellectual, moral and spiritual potential—*becoming*!

Another appropriate suggestion to participants: Please note what's going on above your shoulders that would lie dormant were all serene and satisfying. Your *newborn* activity is a heavenly blessing emanating from our current devolutionary position. So why not join in applauding this socialistic mess for your own sake and for freedom's sake? It has made an anti-agent of you against the know nothings who would run our lives. Thus are you inspired to help achieve that glorious ideal in which each is able to act creatively as he pleases!

Finally, a thought worth repeating: Our present-day antiagents are growing in an understanding of freedom and its supporting virtues. It is this kind of growth, and this only, that energizes the magnetism which causes others to seek one's tutorship. Only those who seek enlightenment can become enlightened! Thus,

those who see the truly good spawned by the present bad are responsible for more and more anti-agents, all of whom grace mankind and by reason of their love of liberty!

I See my Elements of Libertarian Leadership, pp. 156-58.

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

Dred Scott's Revenge by Judge Andrew P. Napolitano

Nelson's Favorite Quotes

"It is no coincidence that the century of total war coincided with the century of central banking."
— Ron Paul, *End the Fed*

"The budget should be balanced, the treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed lest Rome become bankrupt. People must again learn to work, instead of living on public assistance."
— Cicero, 55 B.C.

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

Morristown, NJ - IBC Seminar

November 4, 2017

Contact Tom O'Connell

973-394-0623

tjoconnell@internationalfinancial.com

Welcome the newest 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:

- [Mary Jo Irmen - Bismarck, North Dakota](#)
- [Braden Galloway - Anchorage, Alaska](#)
- [Jim Oliver - Bonita Springs, Florida](#)
- [Vivien Adao - Burbank, California](#)
- [Levi Clock - Shawnee, Kansas](#)
- [Isis Palicio - Coral Gables, Florida](#)
- [Jeffrey Iorio - Tuscan, Arizona](#)
- [Clyde Adams - Kuttawa, Kentucky](#)

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.