The Perfect Investment
by L. Carlos Lara

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There is no other way to put it. Americans have been tricked! The hidden process of money creation that artificially manipulates interest rates and creates economic booms has misguided society’s views of money and credit. This has been especially noticeable in our modern view of savings. Once considered the bedrock of a household’s financial strategy, traditional savings plans lost favor with the public because they were seen as too slow and boring in an economy that was flush with money and low interest rates. The lure of the stock market and the promises of quick money through investing turned Americans into a nation of speculators. Riding the wave of inflation, the idea was to buy low and sell high. The strategy was all about making money—fast!

The problem is that inflation and credit expansion always precipitates business maladjustments and malinvestments that must be later liquidated. The inevitable bust is always disastrous to the economy. For society at large, the end results are massive unemployment, recessions, and a possible collapse of the monetary system. Only now, with the current financial crises are individuals finally starting to assess how this all happens. What has surfaced as the primary cause no one would have believed during the heyday of easy credit and fast money. But slowly, over the course of recent years, the general public has finally become aware that somehow the Federal Reserve was directly responsible. And, of course, they are right. After all, the Fed controls all of our money! The Federal Reserve, though created by the government, is nonetheless owned by private individuals and in important ways operates independently from the wishes of the government. As Austrian economist, Murray Rothbard, stated:

“The Federal Reserve, virtually in total control of the nation’s monetary system, is accountable to nobody—and this strange situation, if acknowledged at all, is invariably trumpeted as a virtue.”

This startling realization, the fact that our money is not fully in our control can be immensely depressing once all of its moral and economic ramifica-
tions are fully understood. How in the world do you take away the printing press from government and the Federal Reserve once they have had full use of it all these many years? In fact, just exactly how would one go about changing such a monstrous problem?

**How Privatized Banking Really Works**

To answer these specific questions Robert and I wrote *How Privatized Banking Really Works*. It is a unique book in that it both diagnoses our nation’s economic problems, but then offers a realistic solution. Our quandary has very specific causes: fiat money and the practice of fractional reserve banking, coupled with government interventions that perpetuate them. All this we explained without the use of intimidating jargon that too often defies comprehension. The book’s overarching theme is that households do have the ability to secede from this chaotic financial system and ultimately force the upper echelons of government to make necessary monetary policy changes. In that respect, this is a book that answers the question of what one person can actually do that will make a difference in an economic environment that has gone terribly awry.

What we made clear was that the solution requires a movement that will ultimately change public opinion. However, the very first step to getting the ball rolling requires the implementation of the Infinite Banking Concept (IBC). To do this successfully one must fully grasp its meaning and see how it actually helps the individual financially. Once fully understood, this concept provides the basis for a formula with powerful turn-around dynamics. The result is a private economic enterprise that provides all of the financing capabilities to acquire cars, children’s education, retirement income and even house purchases. In an economic environment such as what we have today who would not want to know about such a concept? However, making the case for IBC is easier said than done. Today’s investing public is extremely cynical and skeptical, but there is yet another issue that can sometimes prove insurmountable—the closed mind. Many people have difficulty seeing past their preconceived ideas. Nevertheless, if we are to have any hopes of returning to sound money and returning money and banking to the competitive private sector, out of the hands of politicians and bailed-out big bankers, the public must be made to understand this very important piece of the financial solution. Here is where the financial professional who understands Austrian economics must step forward to do his part in properly explaining IBC.

One of the most compelling ways financial professionals explain the IBC concept is to compare it to one’s own private bank as Nelson Nash has done in his national best selling book, *Become Your Own Banker*. This is important because IBC is all about the banking business. But another way that is often used to explain IBC is to compare it to the perfect investment. Here the client is asked to list all of the attributes of the ideal investment. This exercise alone will do an incredible job of opening up the mind to the infinite possibilities if such a product existed. Although the lists may vary from client to client, the following qualities are the ones most often cited:

1. A consistent high rate of return
2. Liquidity
3. Guaranteed
4. Safe
5. Tax Free
6. No market volatility
7. Creditor Protected
8. Inflation Proof
9. Control
10. Transferable
11. Easy to manage
12. No fees or penalties
13. Reputable
14. Private

Try this exercise yourself and you will see that these are probably the top qualities you would select. In fact, a product that would contain all of these features would be too good to be true. But, when it is confirmed that all of these features are found in Whole Life, the client is stunned. It can’t be! Yet
it’s true. If you can think of other qualities not listed here, the chances are pretty high that whole life has them. Furthermore, this is not an even an investment, it’s life insurance!

Just imagine having an infrastructure with all these qualities and having full control of the asset. This is the power of IBC. The most popular investment vehicles are strong on some criteria but very weak on others. For example, gold is an excellent inflation hedge, but it does not provide a flow of income, its appreciation can be taxed as a capital gain, and the government has confiscated gold in the past. Real estate too can be quite volatile. Stock market investments, though promising a high rate of return, also come with the risk of massive short-term losses.

The standard case for whole life insurance is that it is remarkably reliable on several of the above criteria. Even its weak points are not as bad as the critics think. In reality there is no such thing as a perfect investment, but the case for middle-to upper-income families including whole life, as part of their conservative financial plan, is quite compelling. When we supplement the standard case with Nelson’s Nash’s insights, and in particular the relationship of insurance and fractional reserve banking (as I will explain later in this article), the case for practicing IBC becomes stronger still.

In our experience, most people reject IBC out of hand because they have one or two “devastating” objections to the use of a whole life policy. The following example may help in defusing these common objections.

Making Money

Richard Russell has published the Dow Theory Letters since 1958. He gained wide recognition as a stock market analyst and writer for Barron’s from the late 50s through the 90s. He has also written for Time, Newsweek, Money Magazine, the New York Times and the Wall Street Journal. Recently he republished an article that he declares has been his most popular piece in 40 years of writing. It was titled Rich Man, Poor Man. In this article, Russell unveils the secret to making money.

Before telling us the secret, Russell makes an astute analysis that is worth repeating. He says that making money involves much more than predicting what the stock and bond markets will do or what fund will double over the next few years.

“For the majority of investors, making money requires a plan, self discipline and desire. I say ‘for the majority of people’ because if you are Stephen Spielberg or Bill Gates you don’t have to know about the Dow or the markets or about yields or price/earnings ratios. You’re a phenomenon in your own field, and you are going to make big money as a by-product of your talent and ability. But this kind of genius is rare.”

Since we are not all geniuses, the rest of us need to rely on what Russell calls the “royal road to riches” which he defines as the power of compounding.

To compound successfully you need time because compounding only works through time. But he says that the compounding process has two catches. The first is that it requires sacrifice, as Russell puts it, “you can’t spend it and still save it.” Second, compounding is b-o-r-i-n-g. But Russell makes it a point to assure us that it is slow and boring only for the first seven or eight years and then it becomes downright fascinating! The money starts to pour in.

To emphasize the power of compounding Russell shows an extraordinary study of two investors. Investor (B) opens an IRA account at age 19. For seven consecutive periods he puts in $2,000 in his IRA at an average of 10% return (7% interest plus growth). After seven years this individual makes NO FURTHER CONTRIBUTIONS—he’s finished.

Investor (A) opens up an IRA at age 26 (this is the age when Investor (B) was finished with his contributions). Then A continues faithfully to contribute $2,000 every year until he is 65 (at the same theoretical 10% rate).

Now study the incredible results. Investor A has 893,704. Investor B has 930,641.

Investor B, who has made his contributions earlier and who only made seven contributions in total, ends
up with MORE money than Investor A! But Investor A, who made a total of 40 contributions, only LATER in time, winds up with less money. How can that be? The difference in the two, Russell tells us, is that B had several more early years of compounding than A, and those seven early years were worth more than all of A’s 33 additional contributions.

Amazing! This is indeed the power of compounding. Richard Russell has certainly gotten our attention and made us realize how important it is to save money and to start as soon as possible. However, a closer examination of this example brings out several problems that are worth noting.

First of all, we should keep in mind that Richard Russell wrote this article years ago and his use of a 10% return would certainly be considered an above average rate of return today. But there is also the unmistakable consistency in the growth of this fund, a fact that would never happen in the real world. Russell even admonishes his readers that one of the cardinal rules to compounding success is to NEVER LOSE MONEY and most financial products do lose money. Even diversified mutual funds took a brutal beating in the 2000s. Depending on the composition of their funds, many households were lucky if they broke even during the entire decade. It is all well and good to tell someone, “Buy and hold,” but many breadwinners with 401(k)s and other comparable plans had to delay their retirement after the bloodbath in 2008. As of this writing and because Bernanke has halted QE, we are presently in store for another stock market crash.

Second, there is the factor of inflation that is not calculated into this equation. Inflation, although not visible, is real. Whether you use 3%, 5% or whatever factor you choose for inflation, the accumulated numbers will certainly change once its applied. But what is really missing is TAX. Russell has this money inside of an IRA. This means that the tax due on this pile of money is calculated at income tax rates, which can be as high as 35%! If you do the math the pile of money gets drastically small. The fascinating results we first observed with investor’s A&B suddenly diminish.

It is worth the time to stand back and look at this example from both the positive and negative sides of this equation if for no other reason than to realize just how difficult it is for Americans to pile up money over a long period of time and get to keep any of it at the end. The volatility of the bond and stock market, which keeps us from earning a consistent rate of return, is prompted by outside forces, which we know to be artificial bubbles in the economy, caused by monetary policy. The indirect and hidden tax of inflation and the direct tax we have to pay on the accumulation all serve to reminds us of the iron grip government has on our money.

Then there is the problem of control. Do we actually have control over the money we try and save? Individual Retirement Accounts (IRA), the 401(k), the 403(b), and other tax-qualified government sponsored plans for the most part have their underlying assets invested in the stock market through mutual funds. As we have already mentioned, this is not exactly a safe place for our life’s savings. Furthermore, these allocated funds are virtually untouchable till age 59½ unless one is willing to incur a 10% penalty, plus pay the federal income tax, which has only been deferred. After age 70 you must pay the tax. But more importantly, without the ability to tap into your pool of savings in case of emergencies or for large-scale purchases, Americans have very little recourse but to suffer great hardship or be forced to borrow and go into debt.

Astonishingly, the power of compounding that Richard Russell describes in his example can still be achieved if your money is stored inside a whole life policy. The rates of return in a whole life policy are guaranteed never to go below the rates quoted at the time a policy is underwritten. Consequently, a floor is immediately established that assures you of the consistency required to make compounding successful. If interest rates go up then the cash values in your policy will also appreciate.

In case the insured becomes disabled the “Waiver of Premium” rider (not available to those over age 55) guarantees the payment of all premiums at no
out of pocket cost to the insured. Just another way the compounding process can be protected.

If the dividends, which are paid annually, are reinvested back into the purchase of additional life insurance, two important things happen. First, the increasing death benefit becomes the hedge against inflation. Second, the accumulating cash values are not subject to tax. Later on, if the policyholder elects to withdraw the dividend payments as income, these too are tax-free up to the point the dollars taken out are above the ones initially put in.

In case of untimely death the entire compounding process self completes immediately by the death benefit and the proceeds are passed on to the beneficiaries income tax-free.

By having one’s money inside a “private” contractual arrangement with an Insurance company instead of a tax qualified government plan such as an IRA, 401(K), or other similar vehicles, there is real control over your money without the typical restrictions and penalties. You have access to the cash values inside your policy whenever you need them through policy loans. Additionally, all of the other desired investment qualities already mentioned are present. Most importantly, you can spend it and still save it, so long as you replace it. If done properly, using a whole life policy as a financing enterprise makes complete sense.

**Whole Life Policy Loans Are Not Inflationary**

Nelson Nash has discovered that a traditional financial product—dividend-paying whole life insurance—can be used to immediately implement a form of privatized banking, one household at a time. But equally important, when major purchases are financed through whole life policy loans, the money supply is not expanded and there is no contribution to the boom-bust cycle.

Unlike a commercial bank, the insurance company can’t simply increase the numbers on its ledger, showing how much money the customer has “on deposit.” No, the insurance company itself must first raise the funds (from incoming premium payments, income earned on its assets, or through selling some of its assets) before transferring them to the policyholder as a loan. Percy Greaves, in his introduction to a book by Ludwig von Mises, drives home the central point.

“The cash surrender values of life insurance policies are not funds that depositors and policyholders can obtain and spend without reducing the cash of others. These funds are in large part invested and thus not held in a monetary form. That part which is in banks or in cash is, of course, included in the quantity of money which is either in or out of banks and should not be counted a second time. Under present laws, such institutions cannot extend credit beyond sums received. If they need to raise more cash than they have on hand to meet customer withdrawals, they must sell some of their investments and reduce the bank accounts or cash holdings of those who buy them. Accordingly, they (the insurance companies) are in no position to expand credit or increase the nation’s quantity of money as can commercial and central banks, all of which operate on a fractional reserve basis and can lend more money than is entrusted to them.”

So we see that not only does IBC make sense on an individual level, but it also limits the ability of commercial banks to expand and contract the total amount of money in the economy. With each new household that embraces the IBC philosophy, another portion of the nation’s financial resources will be transferred out of the volatile commercial banking sector and into the conservative, solid insurance sector. As more people embrace IBC, the amplitude of the boom-bust cycle itself will be dampened. The social benefits of muting inflationary credit expansion are achieved.

**Conclusion**

Unfortunately, there are powerful forces at work to disrupt our market economy. The student of history knows all too well that the rich and powerful turn to government for special privileges and handouts, and sabotage the peaceful operations of the market. This government interference leads to the financial crises that seem to inexplicably plague our country.
The beauty of Nelson Nash’s *Infinite Banking Concept*—and the crux of this article—is that IBC is effective both individually and collectively. Financial professionals should devote their efforts to showing households that they can provide themselves with a much more secure future. By accumulating their savings in whole life policies to finance their major purchases, families and individuals can contribute to the soundness of the dollar and dampen the boom-bust cycle.

The proponents of IBC and the scholars in the Austrian tradition can learn from each other, and in doing so can make their messages more attractive to their respective audiences. Financial professionals trying to show others the benefits of IBC can add a new point in its favor: its widespread practice would preserve the currency and strengthen the economy! These efforts can build the 10%. The movement we seek can actually happen. Public opinion can change. Monetary policy can be re-written.

**Bibliography**


**How Children Learn the Humanity of Trade**

By Kerry McDonald

My older children attend a self-directed learning center for unschoolers a couple of days a week. I love to hear the stories they share about what they do during the day. Classes are offered and are generated based on the young people’s interests, but they are entirely voluntary. Kids can attend classes or do their own projects, either independently or collaboratively, during what is known as “open hangout.” No one directs the hangout. Adults are present to facilitate and help if needed, but they don’t orchestrate the

children’s work and play. The kids are free to create at will.

One creation that has been ongoing for months during open hangout is the development of a marketplace and its associated currency, known as myafo. It turns out, some of the kids want to tax the businesses in the marketplace “because that is how it is.”

The kids create myafo using crayons and hot glue to make colorful, round gems and then use this currency to “buy” items that are produced for sale in the myafo marketplace. It’s been interesting to hear about the evolution of this economy and its unit of exchange, including the successes and setbacks. Lately, as the marketplace gains popularity among the young people at the learning center, there have been discussions about creating a central bank and the potential issues related to that. There have also been conversations about power and control. Not surprisingly, one discussion that piqued my interest related to taxes. It turns out, some of the kids want to tax the businesses in the marketplace “because that is how it is.”

**Forced Generosity**

Others have more magnanimous reasons for taxation, such as using the taxes as a method of charity to allow kids who are new to the center, or who attend irregularly, to fully participate in the marketplace by receiving an allotment of myafo out of the collected taxes. It was called a charity tax. Some children disagreed with the tax idea and suggested that everyone be encouraged to voluntarily donate some of their myafo to help the newcomers. After all, forced generosity isn’t charity; it’s coercion.

It will be interesting to see how the myafo marketplace matures and how the kids address conflicts related to their growing economy. The issues they grapple with are big, and even we adults haven’t figured them out in real life. I am glad to see that dialogue and debate are central to the young people’s decision-making and that it is all completely child-driven. Trade is a fundamental process of
human betterment.

The kids, who range in age from about six to 14, created this project all on their own, with no adult prompting and no adult interference. It reveals how the idea of peaceful, voluntary cooperation through trade is something humans gravitate toward. Indeed, they have for millennia.

The history of trade dates to prehistoric times, as individuals sought to improve their well-being through trade. Someone has something to barter or sell that someone else wants to barter or buy, and both parties are better off as a result of the exchange. Trade is a fundamental process of human betterment. As it has spread during modern times, particularly when unencumbered by kings, dictators, and other central powers, free trade has led to growing global prosperity and astonishing reductions in poverty.

Trade

FEE’s Dan Sanchez goes so far as to say trade is what makes us human and quotes Adam Smith, who wrote in The Wealth of Nations of humans’ “propensity to truck, barter, and exchange one thing for another.” Smith continues:

It is common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts. (…) Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. Nobody ever saw one animal by its gestures and natural cries signify to another, this is mine, that yours; I am willing to give this for that.

If you or your children are curious about the history of money and exchange, I highly recommend this Outschool.com class taught by Tom Bogle, as well as the Netflix series Origins and its episode on “Money, Banks, and The Stock Market.” And definitely check out FEE’s fantastic Common Sense Soapbox episode “Voluntary Trade is Win-Win!”

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PG&E’s Failures Show the Dangers of Government-Imposed Utility Monopolies

by Robert P. Murphy

Although the roughly two million affected residents of Northern California are recovering from the rolling blackouts imposed by utility PG&E, the company has warned that these “fire safety outages” may be periodically required for another decade. Naturally, California Governor Gavin Newsom decried the debacle as yet another example of “greed and neglect.” Yet as IER analyst Jordan McGillis explained in a previous article, the episode actually showcases the dangers of a government-imposed monopoly in electricity provision. In this article, I’ll elaborate on McGillis’ insights and show why the conventional economic rationale for government regulation of electric utilities is fundamentally flawed.

PG&E’s Rolling Blackouts Not a Free-Market Outcome

When a company screws up so horribly, letting down literally millions of its customers and moreover promising to continue doing so for another decade (!), the obvious question is: Why don’t they go out of business? Why doesn’t a competitor grab their market share?

The answer, of course, is that the California government forbids PG&E’s customers from switching to a competitor. Let me quote directly from McGillis who gets to the heart of the matter:

PG&E does not function as would a company in a competitive marketplace. As a regulated monopoly, it has been granted status as the sole provider of electricity to a swath of the state stretching more than 500 miles from Eureka, north of the Bay Area, to Bakersfield, in the San Joaquin Valley. The company operates in tandem with the California Public Utilities Commission (CPUC), a panel of regulators appointed by the governor. Unlike in a competitive marketplace, PG&E does.

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not need to compete for customers by offering more value dollar-for-dollar than other companies. Instead PG&E is guaranteed a rate of return on its investments and establishes with the CPUC the corresponding rates that customers will pay.

So we’ve solved the most immediate puzzle: The reason PG&E can get away with such outrageous mismanagement and shoddy customer service, is that the California government literally guarantees them their business. It is illegal for another company to try to entice PG&E’s disgruntled customers to switch their patronage.

Companies in an Open Market Love Periods of “High Demand”

Although the outrageous episode of PG&E is fresh in our minds, this is nothing unusual. Every summer, it is commonplace for utilities to urge their customers to “conserve power” by keeping their air conditioners at an uncomfortable setting, and they often impose rolling blackouts or “brownouts” in order to maintain the integrity of the grid.

Notice that you never see this type of behavior from genuinely private sector companies? Even though people greatly increase their consumption of beer and hot dogs during July, you never see Budweiser or Oscar Mayer imposing temporary outages on their customers.

On the contrary, companies in an open market love it when the public suddenly wants to buy more of their product or service. It’s only in the realm of government-regulated utilities (or services directly provided by a government agency) where the customers are viewed as annoying nuisances, who need to be scolded to stop consuming so much.

Different Incentives, Different Results

Any adult American reading my article surely can agree—regardless of your politics—that I am speaking the truth. To repeat, you simply do not see private companies in (relatively) open markets operating the way PG&E and other “public utilities” do. So the mismanagement and shoddy service of PG&E can’t possibly be the fault merely of corporate greed and neglect. Rather, the difference is due to the institutional structure and incentives that the government sets up.

As McGillis explained in the block quotation above, a regulated public utility is typically given a monopoly for a certain region. It’s not allowed to charge “whatever the market will bear,” but instead must have its retail prices approved by government regulators. After showing the regulators the official cost of providing the service—whether electricity, natural gas, land phone lines, water, etc.—the utility is then allowed to charge enough to cover its costs and earn a reasonable rate of return for the investors.

The problem with this approach should be all too obvious, in light of PG&E’s debacle and the similar episodes we see all the time with other government-regulated monopolies—the residential drinking water crisis in Flint, MI comes to mind. Once a company is guaranteed its customers, with competition expressly outlawed, there is little reason for it to maintain quality.

Furthermore, because the retail price to the final consumer is regulated, whenever the quantity demanded exceeds the supply, the only solution is to artificially restrict the ability of customers to use the product. In a normal, relatively unregulated market, the price rapidly adjusts to balance the quantity demanded and supplied. In extreme situations—such as the immediate aftermath of a hurricane—this can lead to “outrageous” prices for bottled water and batteries, but such “price gouging” is exactly what we want to ration the available supply and motivate outsiders to bring in new supplies.

The Conceptual Flaw With Mainstream Models of Regulation

The textbook rationale for regulating certain services—such as residential electricity and water—is that they constitute “natural monopolies.” The idea is that a certain level of infrastructure spending is necessary to even have the ability to offer these services to a particular region, and so in an unregulated open market you would either have unnecessary duplication—with a given street having
numerous pipes and power lines from different companies—or you would have one company that had captured the market and could charge outrageously high prices for such essentials. In order to combat these undesirable outcomes, the model of a publicly regulated monopolist with cost-plus pricing was developed.

Yet as I’ve argued above, there is something terribly wrong with this approach. It simply takes it as a given that a regulated monopoly will provide the same quality of service as one facing open competition, which we see in practice is simply not true. Furthermore, as those in the Austrian tradition of economics stress, there is no such thing as an objectively given “cost of production.” Firms need to discover cheaper methods of producing electricity, water, etc., and we would expect them to look more diligently when they have profits as a reward. In other words, once your firm is allowed to charge its “cost” plus a markup for profit, you have no reason to weed out inefficiencies—the regulators will simply make you cut your retail price.

Conclusion

The PG&E debacle showcases the flaws of government-regulated monopolies. This is not an isolated incident, but is typical of the entire model. Yes, there are practical reasons that free and open competition might not work as smoothly with services requiring large infrastructure spending, but these complications pale in comparison to the dangers of having government outlaw competition. If we see the benefits of competition in trivial goods like soda and cereal, we should all the more so insist on competition for essentials like electricity and drinking water.

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Empire and Interventionism vs. Republic and Noninterventionism

By Jacob G. Hornberger

The chaos arising from U.S. interventionism in Syria provides an excellent opportunity to explore the interventionist mind. Consider the terminology being employed by interventionists: President Trump’s actions in Syria have left a “power vacuum,” one that Russia and Iran are now filling. The United States will no longer have “influence” in the region. “Allies” will no longer be able to trust the U.S. to come to their assistance. Trump’s actions have threatened “national security.” It is now possible that ISIS will reformulate and threaten to take over lands and even regimes in the Middle East. This verbiage is classic empire-speak. It is the language of the interventionist and the imperialist. Amidst all the interventionist chaos in the Middle East, it is important to keep in mind one critically important fact: None of it will mean a violent takeover of the U.S. government or an invasion and conquest of the United States. The federal government will go on. American life will go on. There will be no army of Muslims, terrorists, Syrians, ISISians, Russians, Chinese, drug dealers, or illegal immigrants coming to get us and take over the reins of the IRS.

Why is that an important point? Because it shows that no matter what happens in Syria or the rest of the Middle East, life will continue here in the United States. Even if Russia gets to continue controlling Syria, that’s not going to result in a conquest of the United States. The same holds true if ISIS, say, takes over Iraq. Or if Turkey ends up killing lots of Kurds. Or if Syria ends up protecting the Kurds. Or if Iran continues to be controlled by a theocratic state. Or if the Russians retake control over Ukraine.
It was no different than when North Vietnam ended up winning the Vietnamese civil war. The dominoes did not fall onto the United States and make America Red. It also makes no difference if Egypt continues to be controlled by a brutal military dictatorship. Or that Cuba, North Korea, and China are controlled by communist regimes. Or that Russia is controlled by an authoritarian regime. Or that Myanmar (Burma) is controlled by a totalitarian military regime. America and the federal government will continue standing.

America was founded as a limited government republic, one that did not send its military forces around the world to slay monsters. That’s not to say that bad things didn’t happen around the world. Bad things have always happened around the world. Dictatorships. Famines. Wars. Civil wars. Revolutions. Empires. Torture. Extra-judicial executions. Tyranny. Oppression. The policy of the United States was that it would not go abroad to fix or clear up those types of things.

All that changed with the conversion of the federal government to a national-security state and with the adoption of a pro-empire, pro-intervention foreign policy. When that happened, the U.S. government assumed the duty to fix the wrongs of the world.

That’s when U.S. officials began thinking in terms of empire and using empire-speak. Foreign regimes became “allies,” “partners,” and “friends.” Others became “opponents,” “rivals,” or “enemies.” Events thousands of miles away became threats to “national security.”

That’s when U.S. forces began invading and occupying other countries, waging wars of aggression against them, intervening in foreign wars, revolutions, and civil wars, initiating coups, destroying democratic regimes, establishing an empire of domestic and foreign military bases, and bombing, shooting, killing, assassinating, spying on, maiming, torturing, kidnapping, injuring, and destroying people in countries all over the world.

The results of U.S. imperialism and interventionism have always been perverse, not only for foreigners but also for Americans. They have ended up with out-of-control federal spending and debt that have left much of the middle class high and dry, unable to support themselves in their senior years, unable to save a nest egg for financial emergencies, and living paycheck to paycheck.

Empire and interventionism do not come cheap.

The shift toward empire and interventionism has brought about the destruction of American liberty and privacy here at home. That’s what the assassinations, secret surveillance, torture, and indefinite detentions of American citizens are all about — to supposedly protect us from the dangers produced by U.S. imperialism and interventionism abroad. One might call it waging perpetual war for freedom and peace, both here and abroad.

There is but one solution to all this chaos and mayhem — the dismantling, not the reform, of the Pentagon, the military-industrial complex, the vast empire of foreign and domestic military bases, and the NSA, along with an immediate end to all foreign interventionism. A free, peaceful, prosperous, and harmonious society necessarily entails the restoration of a limited-government republic and a non-interventionist foreign policy to our land.

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by Llewellyn H. Rockwell Jr.
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John Kenneth Galbraith, that insufferable puritan, wrote an odd book in 1958 called The Affluent Society, and it had a huge influence on several generations of anti-market activists. The burden of the book was to brazenly shift the terms of the debate over socialism and capitalism. Whereas the socialists once argued that capitalism produced too little, they would now follow Galbraith to say that capitalism produces way too much of the wrong sort of thing (things to consume) and too little of the right sort of thing (public goods, equality, etc.).

One of the many targets in the book was so-called "planned obsolescence" — the practice of manufacturers to design their products to wear out and break down at a certain point in the future. This would thereby cause consumers to have to go out and buy a new and very similar item. These clever manufacturers would couple this planned obsolescence with a cosmetic change masquerading as an improvement to fool the consumer into thinking that he got his money’s worth, when in fact he was really being ripped off, paying twice for what should have only been bought once.

There are bogus assumptions here. First, the model assumes that the manufacturers are far more clever than consumers, who are treated as some sort of passive victims of powerful capitalist interests. In fact, in the real world, it is the manufacturers who are clamoring to keep up with the ever-changing, discriminating, cheap, and fussy consumers, who dump products and switch others for reasons rational and mysterious.

Second, the model makes an odd normative assumption that products should last as long as possible. In fact, there is no preordained market preference for how long goods should last. This is a feature of manufacturing entirely driven by consumer demand.

The old Galbraithian canards are back again, as many commentators have noted that kitchen appliances, and many other things, just don’t seem to last the way they used to. In the old days, you got a blender as a wedding gift and your daughter would use it when she came home from college. These days we are lucky if a blender or hand mixer lasts a few years. The same seems true of washers and dryers, lawn mowers and edgers, clothing, electronic equipment, and even homes. Nothing lasts like it used to.

But is this a case against the market or merely a reflection of consumer preference for values (lower price, the newest technology, and different amenities) other than longevity? The latter, I submit. As materials have fallen in price, it makes more sense to replace the good than to create it to last forever. Do you want a $200 blender that last 30 years or a $10 blender that lasts five years? Whatever consumers prefer in the long run is what dominates the market.

How can we be sure? Competition. Let’s say all manufacturers make blenders that die in 5 years only, and this fact is widely loathed. One manufacturer could beat the competition by providing a product that emphasizes longevity over other features. If consumers really value longevity they will be willing to pay the difference. The same logic applies to cars, computers, houses, and everything else. We can know what preference dominates (in a free market) by simply looking at what practice is most common in the market.

Imagine if a computer manufacturer produced a machine that was advertised as a lifetime computer, the last computer you will need as long as you live, complete with software that will similarly last forever. Anyone with savvy would be skeptical, realizing that this is the last thing you want. Ideally your computer should only last as long as you want it to last before you are ready to upgrade to a new model. Far from being a rip-off, then, obsolescence is a sign of rising prosperity.

In times of massive and frequent technological improvement, it would be sheer waste for
manufacturers to dump resources into making products last past their usefulness. In computers, for example, to have made them durable enough to last more than 6 years would be a big mistake in today’s environment. The same could be true of houses too. Everyone knows that old houses can be charming but bears to grapple with in terms of heating, cooling, plumbing, wiring, and everything else. The efficient solution might well be to level a house and rebuild rather than attempt an upgrade.

This would only be a waste if you push longevity ahead of technological improvement. Individual consumers are free to do that, but we have no basis for declaring this value set as fixed and unchanging. We do not live, nor do we wish to live, in a world that is static, where development never occurs, where what exists has always existed and always will.

So it is with clothing and furniture and other goods. As people have more disposable income and it rises over time, people want to be able to replace what they wear to accord with changing tastes. A society in which clothes are forever mended, electronic parts are forever fixed, and existing products are forever bucked up to go another mile is not necessarily a rich society. To be able to toss out the broken and torn is a sign of rising wealth.

It is common for people to look at a hollow door or a composite-wood desk and say: what cheap and shoddy products these are! In the old days, craftsmen cared about the quality of what they made! Now no one cares and we end up being surrounded by junk! Well, the truth is that what we call high quality from the past was not available to the masses to the same extent it is today. Homes and cars might have lasted longer in the past but far fewer people owned them than in today’s world, and they were far more expensive (in real terms).

In a market economy, what is called quality is subject to change according to the preferences of the consuming public. Whether products should last a lifetime (such as wedding rings) or a day (fresh bread) cannot be determined outside the framework of a market economy. No central planner can say for sure. It is constantly subject to change.

If your book falls apart, your clothes collapse in tatters, and your washing machine suddenly keels over, resist the temptation to decry the decline of civilization. Remember that you can replace all these items at a fraction of the price that your mom or hers bought them. And you can do so with minimal fuss and trouble. And it is very likely that the new versions of the old products that you buy will have more bells and whistles than the old.

You can call this planned obsolescence if you want to. It is planned by producers because consumers prefer improvement to permanence, availability to longevity, replaceability to reparability, motion and change to durability. It is not waste because there is no eternal standard by which we can measure and assess the economic rationality behind the use of resources in society. This is something that can only be determined and judged by individuals using resources in a market setting.

Of course a person is free to live in a drafty stone house, listen to music on a Victrola, wash clothes with a washboard, tell time with a sundial, and make one’s clothes from flour sacks. Even now this is possible. One is free to be completely obsolete. But let us not equate this status with wealth, and let us not aspire to live in a society in which everyone is forced to prefer the permanent things to the improving things.

[Originally published under the title "How Long Should Things Last?"]

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Why Economic Freedom Is Just as Important as Religious Freedom

by Kevin Baldeosingh

Presidential hopeless Beto O’Rourke has been castigated by the Right and the Left and even by atheists for his statement at the October 10 Democratic debate that religious organizations that discriminate against same-sex marriage should have
their tax-exempt status pulled. Yet nobody seemed to notice that O'Rourke had also unintentionally admitted that taxes are a tool to punish citizens who fail to follow the dictates of the state.

For 137 years after the Declaration of Independence, no American paid a federal income tax. The government raised revenue solely through tariffs and other indirect taxes, and the Constitution had to be amended in 1913 for a direct tax to become legal. Churches retained their exempt status, but the income tax was levied on everyone else.

So imposing higher taxes or lowering them is how politicians can get campaign contributions or votes. And it’s often the case that the threat of high taxes is the most effective way for politicians to get firms to do what they want. For example, in his book Crony Capitalism in America, investment manager Hunter Lewis cites the case of two Democratic senators who were planning to introduce a new tax on hedge funds.

**Tax Exemptions for Religious Groups**

As a result, the Democratic Party got twice as much in campaign contributions from Wall Street hedge funds as did the Republicans in 2008-2009, and the proposed plan never made it to the Senate floor. Lewis argues that this is why

the tax code keeps getting longer and longer and more impenetrable…the more complex and vague it is, the easier to trade special deals and provisions for campaign money or assistance.

Religious organizations have enjoyed tax exemptions precisely to avoid such shady political dealings. This is not to say that there wasn’t a political motive: By not taking taxes from religious groups, politicians hoped to gain the bloc vote support from them. But the ostensible justification for exemptions is that religious organizations provide services that improve societal welfare and so contribute to the public good in a manner that pays for the lost tax revenues.

But doesn’t this logic also apply to secular organizations and, indeed, to individual citizens? After all, successful businesses by definition supply goods and services that contribute to people’s welfare. If the business is not serving people’s welfare (as defined by the person who patronizes the company), customers stop buying their goods and services and the company closes down. When the government imposes taxes on a business, this adds to the company’s expenses and may even distort competition between firms, which means that customers’ needs are not met as efficiently as they might have been.

One left-leaning commentator even applied this same logic to religious organizations to argue in favor of churches not having to pay taxes.

For many religious institutions, this is a legitimately existential issue—paying property taxes, business income taxes (assuming they do more than break even), and losing the ability to collect tax-deductible donations would be a massive financial blow, wrote Jordan Weissmann in *Slate*.

**Separation of Church and State**

But what does this mean except that such groups don’t have enough adherents in order to meet their expenses and pay taxes? By standard business criteria, these religious organizations don’t have enough customers to justify their existence. Yet the criterion for firms is that they must have enough customers to meet all their overheads and still give money to the state. Nonetheless, Weissmann’s basic point isn’t wrong in the sense that churches are thriving partly because of their tax-exempt status. History shows that the separation of church and state is a principle that helps a nation to maintain progress and peace.

A 2008 study by Jonathan Fox and Ephraim Tabory that measured state regulation on religion in 81 countries found that the more a government intervenes in the religious market, the fewer people attend church and the less likely they are to describe themselves as religious. Thus, the fact that the Lutheran religion is the state church in Denmark, Sweden, and Norway may explain why these...
countries score highest in surveys on secularism, whereas in the religious free market of the United States religiosity is highest in any developed nation and evangelical pastors are multi-millionaires.

While the spiritual goods provided by religion are important, so are the actual and psychic goods provided by the free market. The Heritage Foundation in its 2019 Index of Economic Freedom notes that:

People in economically free societies live longer, have better health, are able to be better stewards of the environment, and push forward the frontiers of human achievement in science and technology through greater innovation.

Economies rated “free” or “mostly free” enjoy incomes that are more than twice the average levels in all other countries and more than five times higher than the incomes of “repressed” economies.

History shows that the separation of church and state is a principle that helps a nation to maintain progress and peace. Economics shows that the separation of state and private sector should be just as sacrosanct.

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Seventh in a monthly series of Nelson Nash’s personally written Becoming Your Own Banker lessons. We will continue these lessons until we have gone through the entire book.

PART 1 Lesson 7 The Problem

Content: Page 17, Becoming Your Own Banker Fifth Edition

Several years ago [1999], I did a study on the spending habits of American families. The results are depicted in the graph on page 19 of the book. Since that time, I have kept an eye on the proportions on income allocated to each category and I’m convinced that the situation has become worse -- they are spending more on interest and saving less.

I build my scenarios around the “average person” because I don’t want anyone to think that you have to be rich to create a banking system that can handle all your needs for finance. This young man is 29 years old and is making $28,500 per year after taxes -- that is all he can spend. What does he do with the after-tax income? 20% is spent on transportation -- 30% on housing -- 45% on “living” (clothes, groceries, contributions to charitable causes, boat payments, casualty insurance on cars, vacations, etc.). Many of these items are financed by credit cards or bank notes. The balance is financed by paying cash for them -- and thus, giving up interest that could be earned, otherwise. He is saving less than 5% of his after-tax income! (At the time of this writing he is saving absolutely nothing!) It is the first time in the history of America that this has happened. This scenario has all the ingredients for an impending disaster!

To be as generous as possible, let’s assume he is saving 10% and spending 40% on living expenses. This is giving him every benefit of the doubt on the matter of savings. Just remember -- the real situation is much worse than these assumptions.

The problem is that the cars, housing and much of the “living” items are financed by other banking organizations. The typical financing package for an automobile for this hypothetical person is $10,550 for 48 months with an interest rate of at least 8.5% and this produces a monthly payment of $260.00 per month. It is a fact that 95% of the cars that are traded in are not paid for. This means, at the end of 30 months, that 21% of every payment is interest – and this is a perpetual factor. It never seems to dawn on him that the volume of interest is the real issue, not the annual percentage rate.

What’s more, ask the sales manager of the high-priced cars, “What percentage of the cars that leave
your agency are leased?” He will probably tell you 75% or more! That is even worse than having them financed!

Now, let’s move to the housing situation. This young man can qualify for a 30-year fixed-rate mortgage of about $93,000 at 7% APR with payments of $618.75 per month and closing costs of about $2,500.00. The problem is that within 5 years he will move to another city – maybe just move across town – or even refinance the mortgage. Something happens to a mortgage within 5 years. During the 60 months he has paid out $39,625, including closing costs but only $5,458 has gone to reduce the loan. This means that $34,167 has gone to interest and closing costs. Divide the amount paid out into the interest and closing costs and you find that 86% of every dollar paid out goes to the cost of financing! If he sells the house is less than 5 years, it is worse. This situation is also perpetual. He thinks he is buying a house, but all he is really doing is making the wheels of the banking business and the real estate business – in that order – turn. But, all the “financial experts” are advising him to indulge in this activity.

In the next segment of the spending pattern graph – the living expenses – you will find the interest on boat payments, credit cards, plus the cost of casualty insurance on cars, etc. will rival in volume the interest he is paying on the two cars in the family that we addressed earlier. Later on, in this course you will learn how to self-insure for comprehensive and collision insurance on cars.

Now, add up all the interest he is paying out and you find that 34.5% of every dollar paid out is interest. For the average All-American male this proportion never changes. Let’s assume that he is saving 10% of is disposable income (which he is not doing!). This would mean that we have a 3.45 to 1 ratio of interest paid out as compared to savings.

Now, get this young man together with his peers at a coffee break and have one of them suggest that they discuss financial matters. You can rest assured they will all talk about getting a high rate of return on the little dribble they are saving. Meanwhile, all the participants are doing the above! What a tragedy! But that is how they have been taught to conduct financial affairs.

We will continue this in lesson 8. See you then!

The following financial professionals joined or renewed their membership to our Authorized Infinite Banking Concepts Practitioners team this month:

- Jim Kindred - Saint George, Utah
- Robert Zuniga - Davidson, North Carolina
- Bruce Wehner - St. Louis, Missouri
- Kenneth Lester - Smyrna, Georgia
- Dave Cheatham - St. Charles, Illinois
- Ronald Campbell - Glen Burnie, Maryland
- Michele Boyer - Wheat Ridge, Colorado
- Glen Akin Jr. - Lubbock, Texas
- Ryan Griggs - Fort Worth, Texas
- Steve Perrmann - St. Louis, Missouri
- John Norden - Honolulu, Hawaii
- Joel McGriff - Birmingham, Alabama
- Brett Kulman - Briarcliff Manor, New York

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.