The Infinite Banking Concept...Compared to What?

By- Ernest Falkner, III
Ernest Falkner+Company
Nash/Bullock/Falkner Alliance

After watching the events of the life insurance industry for the last 30 years, you and I can well believe that we have about seen it all. Let's site a few areas...

For one example, in the last thirty years, how many times have you been encouraged and/or motivated to act on "IRS Private Letter Rulings" as an agent or client? The IRS states that these rulings are: "written statements issued to an individual taxpayer by the department and interpret the tax laws based on that particular individual taxpayers specific set of facts. A taxpayer may rely upon the ruling to the extent the facts are the same as those in the ruling."

Even as such, we've seen these rules applied to taxation and leveraging insurance techniques regarding individuals, businesses, charities, government plans, retirement programs and many others. The result: untold millions of insurance premium dollars have flowed into insurance home offices on the fragility of such rulings.

IBC IS NOT BASED ON ANY PRIVATE LETTER RULINGS.

Question: How many "advanced underwriting" national/regional/local meetings have you and I attended where the H.O. attorneys and/or AU management personnel have hosted the meeting where "all the newest and latest techniques' are presented? Some of the techniques ranged from simple and understandable to others, which would require such technical knowledge and understanding that it would be unreasonable for a common client to understand. In many cases, the applications were for extremely limited audiences and practitioners.

The result; "If I could not understand the presented technique...How could I possibly present it with confidence to clients?"

IBC IS NOT BASED ON HOME OFFICE ADVANCED UNDERWRITING.

Unfortunately, in the last thirty years and more specifically the last fifteen years, many major life insurance companies have been besieged by untold lawsuits from consumers and consumer groups over sales and marketing techniques and practices. So many of these discrepancies are wrapped in sales language omissions, or get rich quick themes, or unfounded and unrealistic promises, or even outright deception. All of this activity has resulted in a cost of Billions of dollars to the insurance industry.

IBC IS NOT BASED ON ANY OF THE ABOVE.

In the past thirty years, insurance home offices have birthed several market-responsive and basically "unbundled" insurance products as a response to tax laws, interest rate swings, and even stock market participation. Now we are all familiar with UL, VUL, VL, SWL, and on and on.

Bottom line...even with all the creative home office product designs and the resulting applications...we now have products that are more dependent on the external forces of portfolio management, interest rates, higher expense ratios, (to name a few) that can affect results. Considering that, the proverbial industry standard of a par dividend-paying whole life policy still has the most predictable and guaranteed results.

IBC IS BASED ON A PAR DIVIDEND-PAYING WHOLE LIFE POLICY.

In the last thirty years, you and I have witnessed more and more personal loss of control of our money in order to gain some tax-favored benefits. Example: Individual retirement accounts have deduction formulas, withdrawal penalties, minimum and maximum distributions, participation allowances...as such, individuals increasingly find that because of the lack of control, inflexibility of withdrawals, and the uncertainty of political and tax climates...there are real hesitations in the participation and motivation to direct substantial funding to these plans.

IBC IS NOT BASED ON IRA RULES, PARTICAPATION OR LIMITATIONS.

In the last thirty years, we have seen "Knock-Off's" and even downright thievery in the areas of merchandising products and services. That said, there is only ***ONE*** "Becoming Your Own Banker" and the Infinite Banking Concept that has it's origin of over thirty years and has not deviated from that position or message since (Please see the FAQ section of this website under the topic of "Education").

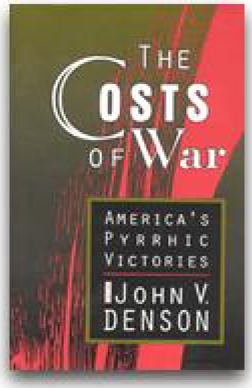
So, any promotion or promotional language that even hints of over promise, over selling or inflammatory sales statements should not and will not be associated with IBC (on any authorized basis).

IBC IS THE ONE AND ONLY...CHALLENGE ANYTHING QUESTIONABLE.

As it is profoundly chronicled, IBC is based on sound economic principles, U.S. tax laws and insurance contractual guarantees. In other words, the reason that IBC works is because these principles supercede sales techniques, gimmicks, creative accounting, trust manipulations, gifting strategies, leveraging methods, etc.

Conclusion: When we look back on the last thirty years, yes we can see a lot of changes in the insurance industry and the resulting products and services. But, ***compared to what*** has been developed and the result of what is available today, IBC from R. Nelson Nash is undoubtedly distinguished as one of the most overlooked yet factually unique applications of the industry's most standard product of the last 100 years.

As long as there is a par dividend-paying whole life product out there, IBC should have a very bright future.



P.S. "Get the Video...Outstanding!"

Five Books That Explain It All

By Jeffrey Tucker

The drive to war, the threat of terrorism, the stock-price meltdown, the continuing recession, and the decline of liberty—all add up to a moment of grave insecurity in which government power thrives and grows. Underneath it all is widespread confusion about what happened to turn the prosperous and relatively peaceful 90s into the current madness, who or what is to blame, and what to do about it.

What most people do in such times is cling to the words of politicians and the statements of TV's talking heads—the two sources least likely to offer a broad perspective that yields answers. The best means to fight back against their superficial prattle is serious study of history and economics. Looking over the Mises Institute's shelf of books, five stand out for providing a clear a historical perspective, a theoretical explanation, a forecast for the future, and an agenda for change. These are the books that are essential to understanding our times of conflict and stagnation.

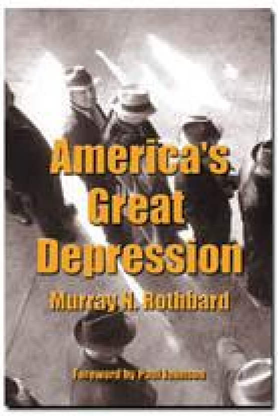
The Costs of War, edited by John V. Denson. A debate is currently raging concerning how much Bush's proposed war on Iraq will cost (in dollar terms) and whether those costs ought to be figured into his new budget (they are not). This is an important concern, insofar as war is always financed with the people's money taken from them by force. But this book shows that the costs of war are far higher than most people realize.

In addition to outright expenditures, we must also consider the foregone uses of the resources that go into warmaking. With the resources used to spread destruction and death, families might have sent kids to college, saved for retirement, or invested in future production. No, war is never "good for the economy."

More significantly, we must consider the costs of war on freedom. Denson's book argues, as did Mises, that even victorious war can be devastating to a country's well-being. This is a point that was widely understood at the country's founding, which is why the founding generation was so adamant that the US should trade with the world but avoid all political entanglements, particularly those that lead to intrigue, conflict, and finally war.

This is amply shown by an examination of the rise of the American leviathan, the consolidation of government power, and the decline of American liberty. Contributors such as Murray N. Rothbard, Allan Carlson, Clyde Wilson, Joseph Stromberg, Hans Hoppe, Robert Higgs, Paul Fussell, Ralph Raico, and many others, weigh in to cover major areas of American history and most topics associated with the idea of war. The overriding thesis is that the friend of freedom must always be gravely skeptical of government war plans.

The influence of the volume has been immense. Appearing in 1997, it was the first (and is still the best) revisionist view of the relationship between war and freedom to appear after the end of the Cold War. In many ways, this book called the partisans of liberty back to their roots. It shows that believers in freedom were against the Northern attack on the South, against the Spanish American War, against World War I, and against FDR's drive to war. The support the American Right gave to the Cold War was an aberration. If you have doubts about Bush's war on Iraq, or the administration's belligerent pose in general, this book shows that you are in good company.

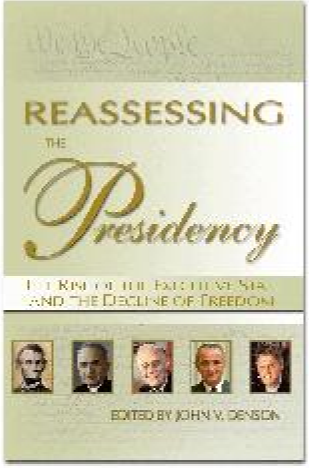


America's Great Depression by Murray N. Rothbard. A Republican president, facing relentlessly falling stock prices, tries every manner of intervention to shore up an economy headed toward liquidation. The result is new protectionism, welfare for labor, vast increases in government spending, and an economic decline that just seems to get worse all the time. This narrative could apply to George W. Bush in our own times, but it also applies to Herbert Hoover and his response to the 1929 crash on Wall Street.

Even today, students are taught that Hoover pursued a policy of laissez-faire and that FDR rescued the country with the New Deal. Rothbard shows that the story is completely false. The Hoover presidency was one of rampant intervention, policies for which he was criticized by (of all people) Franklin Roosevelt before he was elected. Rothbard further documents how Hoover's policies drove the country into depression from what might have otherwise been a brief recession. His protectionism laid the foundation for conflicts that led to World War II, his attempt to prop up banks led to the later bank closings, and his labor interventions prevented wages from falling as they should have.

Here again, it is hard to overestimate the importance of this book. For generations, it has been taught that the free market is at fault for the Great Depression (in the same way it is said that Bush is pursuing free-market policies now). Rothbard, especially in his chapter on the Austrian theory of the business cycle, shows that it was the Federal Reserve's loose money policy that set the stage for the stock market crash, and the government that prolonged the suffering with policies that accomplished the opposite of their stated aims. In other words, this book refutes a central myth of the 20th century, and shows that the current path of countercyclical policy will not only fail to save it; it will dig us in deeper.

Omnipotent Government: The Rise of the Total State and Total War by Ludwig von Mises. Before writing *Human Action*, Mises went to work on a book examining the rise of Hitlerism in Germany.



Appearing the same year as F.A. Hayek's *Road to Serfdom*, Mises provides what may be the best account ever written on the psychology, economics, and politics of a society overtaken by chauvinism and militarism. He deals with the dangers inherent in a citizenry thirsting for vengeance, being led by a government headed by a power-mad executive with a relentless passion for war making at any cost. In short, Mises unlocks the secret to how a seemingly normal country can find itself plunged into nationalist totalitarianism.

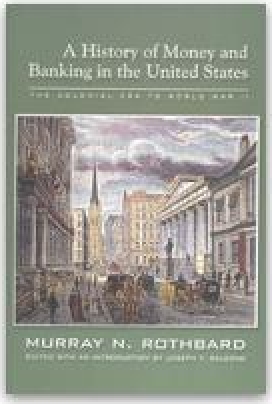
Books on German politics in the 1930s are ubiquitous, but only Mises provides a thorough examination of the economic doctrines that formed the basis of German nationalism in this period. Beginning with the desire for autarky, Germany pursued a disastrous course of erecting the planning state that regimented of every aspect of life, from economics to education to language and religion. He contrasts the prevailing doctrines with the ideas of the old German liberals, who favored trade, peace, toleration, and self-determination.

Much of this history has been lost and replaced by an exclusive focus on the evil of Hitler himself. Apparently, the parallels of Hitler's *policies* with those of the US in the period (or in our own times) are just too close for comfort. That issue aside, Mises's book stands out among all the literature on this topic as a terrifying examination of the consequences of statist ideology, war propaganda, and misplaced patriotism—and its lessons apply in all times and places.

Reassessing the Presidency: The Rise of the Executive State and the Decline of Freedom edited by John V. Denson. If George Washington had delivered a speech along the lines of George W. Bush's State of the Union in January 2003, the outcry would have been palpable. It would have widely been assumed that King George had returned, madder than ever. One was given the impression that nothing in the Constitution restrains his war-making power, nothing prevents him from spending billions upon billions on what he wants to do, and that anyone who objects is an enemy of all that is right and true.

The framers envisioned that the president would have few powers at all, and those that he did have were to be exercised with stern oversight from the legislative branch. If you are seeking an answer to how we came to imperial presidency of the current day, don't look at the conventional presidential histories, in which it is widely assumed that the more power the chief executive grabs, the "greater" he is. Especially wartime presidents come in for good marks, while the downside is either not discussed or downplayed.

This massive volume takes a completely different approach. It examines every important presidency, and effectively reverses the judgment that you are likely to get from the mainstream treatments. Each chapter is a classic on its own terms, but if we have to single out a few, special mention should be made of Randall Holcombe's reconstruction of the presidential election process, Scott Trask's rehabilitation of Andrew Johnson, Thomas Woods's demolition of Theodore Roosevelt, Ralph Raico's shredding of the Truman presidency, John Denson's first-shot revisionism, and Joseph Salerno's examination of the role of money manipulation in funding executive dictatorship.



Read this book and you will never think of the presidency in the same way. You certainly won't cheer a State of the Union address (which is a 20th century invention in any case) in which the president promises that he alone can defend your freedom and security.

A History of Money and Banking in the United States: The Colonial Era to World War II by Murray N. Rothbard. Anyone who has studied the relationship between money and state eventually comes to a remarkable realization: there is no modern leviathan without the central bank. It is the analytical key to understanding how government can run up deficits and debts without limit, bail out foreign governments, fund wars without end, and otherwise attempt to manage the globe. Take away the power to print and you rob the government of its primary means of expansion. (More than any reform, the gold standard would devastate big government.)

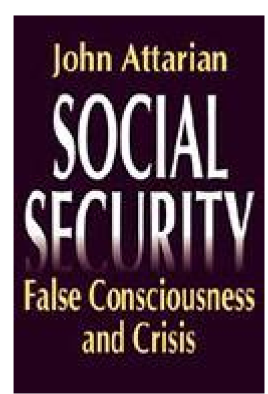
The story of American political history is radically incomplete without a history of money and banking, and yet there is not one history that gave the complete picture until this treatise by Rothbard appeared just last year. The history itself is masterfully done, enhanced by the theoretical lens of Austrian School economics through which the author understands events. But what really makes this a great read (aside from the sparkling prose) is the way Rothbard weaves together the theory and history through the lives of shady financiers and the politicians and political machines with which they are connected.

In many ways, this treatise brings all the themes of our day together. It shows how central banking creates the boom-bust cycle and funds wars, how the financial sector serves as the essential link between politics and banking, and how paper money makes big government possible and manages to make worse all the problems it originally caused. Most importantly for our purposes, this book shows that no matter how extraordinary our times appear, there are many precedents for the current mess, and one clear path away from destruction: freedom, sound money, and ever smaller government.

Jeffrey Tucker is vice president of the Mises Institute.

So You Think You've Got a Trust Fund With Your Uncle Sam . . .

by John Attarian



One of Social Security's greatest myths is that benefits are paid from a trust fund accumulated from taxes held in trust. True, there exist an "Old-Age and Survivors Insurance Trust Fund" and a "Disability Insurance Trust Fund," usually referred to together as "the Social Security Trust Fund." Sure it's a trust fund. Why, it says so right here on the label!

Or is it?

The original Social Security Act created an "Old-Age Reserve Account" in the Treasury. Each year, an amount deemed sufficient to pay that year's benefits would be appropriated to the Account. Appropriations unneeded for benefits would be invested in federal debt, including unmarketable debt issued for this purpose, earning 3 percent. Social Security's tax rate was to rise gradually, to create a reserve big enough so its interest would help defray future costs. Tax collections would begin in 1937; benefit payouts, in 1942; thus the fund would start accumulating.

Criticism arose. Winthrop Aldrich of Chase National Bank argued that the reserve would be a fiction; the government would just be issuing itself promissory notes. In his famous Milwaukee speech on Social Security during the 1936 presidential campaign, "Alf" Landon likened the reserve to a father taking deductions from his kids' wages to invest for their old age, "investing" them in "his own IOU," and spending the money, leaving his kids nothing but IOUs, making Social Security's forced savings "a cruel hoax." Social Security tax dollars, President Franklin Roosevelt retorted, "are held in a Government trust fund solely for the social security of the workers."

After the election, the attacks kept coming. General Hugh Johnson, former head of the National Recovery Administration, and journalist John T. Flynn, pointed out that unlike insurance companies, which invest their premiums to build a reserve to pay claims by their insured, the government was only issuing itself IOUs. So the reserve was worthless. To pay future benefits, Americans would have to be taxed again. Defenders responded that the IOU talk was misleading; aren't all private instruments, such as stocks and bonds, really IOUs, their value depending on the resources and ethics of the issuing firms?

In 1939 FDR proposed amending Social Security. In the ensuing congressional hearings and debates, the reserve controversy exploded. Critics accused the Administration of "embezzlement" and reiterated that the reserve was just IOUs, so Americans would be taxed twice. No, no, no, defenders shot back; no embezzlement was happening, there wouldn't be any double taxation, and the IOUs were the safest investment there was – government bonds. By now three years old, the acrimonious controversy was hurting Social Security's prestige.

The 1939 Amendments created an "Old-Age and Survivors Insurance Trust Fund" at the Treasury. The record is clear that this was done to end the reserve fund wrangle. Testifying before the Senate Finance Committee on the Amendments, Social Security Board chairman Arthur Altmeyer, when asked what the purpose of the trust fund was, stated, "to allay the unwarranted fears of some people who thought that Uncle Sam was embezzling the money."

Moreover, the texts of the original Social Security Act regarding the Reserve Account and of the 1939 Amendments regarding the Trust Fund are virtually identical. Section 201 of the original Act, "Old-Age Reserve Account," was replaced by a new Section 201, "Federal Old-Age and Survivors Insurance Trust Fund." The only real change was the elimination of the specific annual appropriation transferring revenues to the Reserve Fund. Instead, a sum equivalent to Social security tax receipts "is hereby appropriated" to the Trust Fund for the fiscal year ending June 30, 1941, "and for each fiscal year thereafter." In other words, the money now goes into the Fund automatically. The only other new features were a Board of Trustees (Secretary of the Treasury, Secretary of Labor, and Chairman of the Social Security Board) to manage the Fund; replacement of 3 percent interest with the average rate on interest-bearing federal debt; and paying money from the Fund to the Treasury to defray Social Security administrative expenses.

Otherwise, the Trust Fund operated just like the Reserve Account. In fact it was the Reserve Account; the latter's assets as of January 1, 1940 were transferred to the Trust Fund. The Account was, according to the Act, "an account in the Treasury," and the Trust Fund, per the Amendments, was "on the books of the Treasury," making the transfer a formality. Essentially, a shoebox full of bonds just got relabeled.

The evidence is clear: Social Security's Trust Fund is a Treasury account, nothing more. The "trust fund" label was a public relations ploy to reassure the public that Social Security was trustworthy. It worked. The reserve controversy faded away.

Is the Trust Fund the real McCoy? Let's see. A trust fund is money or other property held in a trust, a trust being "A fiduciary relationship with respect to property, subjecting the person by whom the property is held to equitable duties to deal with the property for the benefit of another person, which arises as a result of a manifestation of an intention to create it." A trust must have a "settlor," who creates the trust and puts property into it; a "trustee" who manages it and holds legal title to the property; a "beneficiary," who has equitable title to the property, and for whom the trustee manages it; "terms of trust," spelling out the trust's purpose, the duties and powers of the trustee(s); and, of course, property. (Charles E. Rounds, Jr. and Eric Hayes, *Loring: A Trustee's Handbook*,) 8th ed., pp. 1–2, 5, 79; Gilbert Thomas Stephenson, *Estates and Trusts*, 4th ed., pp. 63–66).

Social Security's trust fund does not have these defining features.

Congress is not the settlor. A settlor puts his own property into the trust, which Congress did not do. And Section 201 of the Amendments did not even mention the Board of Trustees having legal title to any property. Down go two characteristics of a trust.

Also, Section 201 said nothing about property – because there isn't any. In *Flemming v. Nestor*, the Supreme Court ruled that there are no accrued property rights to benefits. If you have no property right to benefits, how can you have property in the trust fund which supposedly pays them? Property in the trust fund implies a property right to benefits, and vice versa. A trust manages property on someone's behalf. No property, no trust.

Suffolk University law professor and trust expert Charles Rounds aptly summed up: "Despite the term 'trust,' the Social Security system contains nothing that remotely resembles the common law trust. There is no segregation of assets, no equitable property rights, no private right of enforcement (all characteristics of the common law trust). It is merely a system of taxation and appropriation sprinkled with trust terms to hide its true nature."

Finally, consider how the Trust Fund operates. Social Security revenues go into Treasury general revenue and are credited to the Fund as unmarketable Treasury bonds. The Treasury pays benefits with general revenue, debiting the Trust Fund an equivalent value of bonds. Any remaining revenue finances general government, with an equivalent value of bonds in the Trust Fund as Social Security's "surplus." (House Ways and Means Committee, *1998 Green Book*, pp. 73, 75, 77). That's a Treasury account in action, not a trust fund.

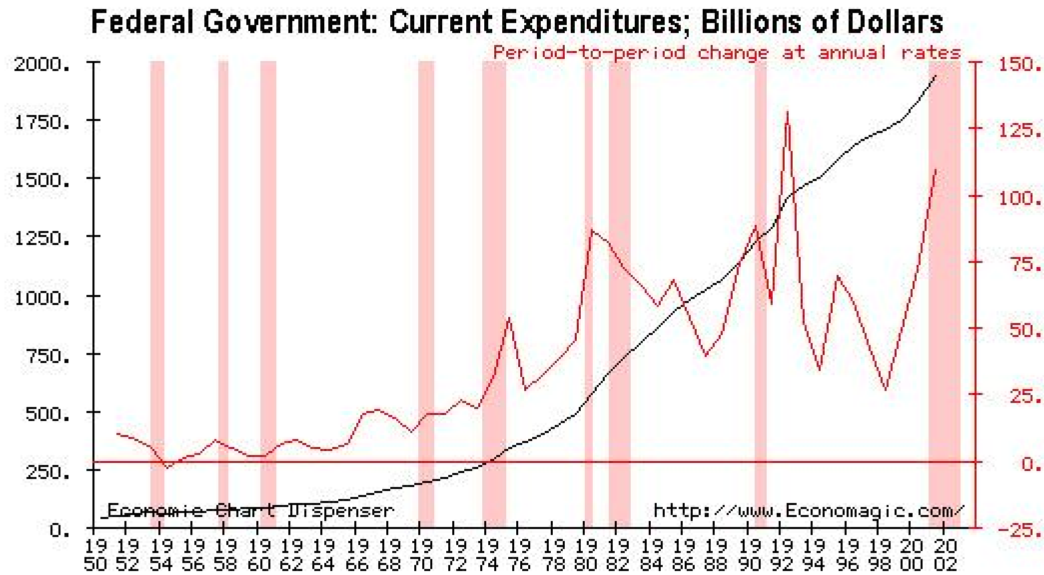
Social Security's Trust Fund is bogus. Meaning the "robbing the trust fund" issue is phony, too. Yet seniors buy it. Last night one of my friends told me he'd tried to straighten out his 77-year-old uncle, but the old boy just wouldn't believe him. Even my Mom fell for that "robbing the trust fund" baloney. Social Security's propagandists have programmed many Americans, especially seniors, like Moonies. Deprogramming is imperative. □

John Attarian is a writer in Ann Arbor, Michigan, with a Ph.D. in economics. His book Social Security: False Consciousness and Crisis*, which treats the myths and realities of Social Security in detail, has just been published by Transaction Publishers.*

Is the Worst Yet To Come?

by William L. Anderson

As the economic downturn moves into its third year, making it the longest in the postwar period, the White House announces yet another economic "stimulus" package. Now, this set of proposals is not to be confused with "Stimulus I" or "Stimulus II," or even the ongoing "stimulus" actions taken by Alan Greenspan and the Federal Reserve System. No, this proposal is based upon the same foolishness as the other legislative packages emanating from Washington that not only have brought about this recession, but also block the real recovery.



Moreover, the chatter by economists and other pundits over which is the proper "stimulus" action to take demonstrates that the Keynesian Revolution has been even more influential in the economics profession than the textbooks would have us believe. From Milton Friedman to Larry Kudlow to Paul Krugman to Maestro Greenspan himself, most economists can proudly repeat what President Richard Nixon uttered August 15, 1971, when he introduced "Phase I" of his disastrous economic program, "We are all Keynesians now."

The old joke that "if you take all the world's economists and lay them end to end, you'll never reach a decision" has been discredited, at least when it comes to proposing policy "solutions" to the moribund economy.

Actually, the belief that government can "stimulate aggregate demand" does not begin with Keynes, although there seem to be some economists who actually believe this. One can accurately say, I believe, that most of the economics profession has not progressed much beyond the 18th Century Mercantilists and their "inflation stimulates trade" nonsense that time and again has driven national economies to ruin.

While I suspect that most pundits actually would cheer the prospect of Kudlow and Krugman agreeing that the way to stop the economic mess is for the Fed to print wads of new money, the tragedy here is that neither man has even the slightest idea how this current downturn came about and what should be done. Should the government continue to listen to this newest generation of cranks in the tradition of Silvio Gesell (the Italian inflationist who Keynes called a "prophet"), we can expect to follow in the footsteps of Japan.

As has been written on this page many times, the 1990s boom—termed then as the "new economy"—was credit-driven and collapsed under its own weight of malinvested capital. Unfortunately, those with political power—and their allies in academe and the media—

believe that our current problem is nothing more than a lapse in "aggregate demand," which can be cured by some new money and a few thousand government checks to be written for various wasteful federal and state projects.

While there seems to be no shortage of advice given from all quarters on how to stop this downturn, the answer is simple—and brutal: let the liquidation continue until it reflects the proper patterns of consumer spending and preferences. In other words, unless we permit an unhampered economy to engage in the very necessary adjustments, the economy will continue to slide further and further into ruin. Contrary to the beliefs of the chattering cranks, the U.S. economy is *not* depression proof.

While most Mises.org readers are aware of the massive U.S. recession of 1981–82, few remember that the Fed engaged in a much more responsible manner than what we have seen under Greenspan these past few years. First, and most important, the Fed permitted interest rates to soar to very high levels in response to the high rates of inflation that had plagued the U.S. economy for more than a decade.
While high interest rates temporarily choked off a number of credit-fueled industries like housing and farming, what is most important is that it permitted the massive malinvestments of the previous boom to be rapidly liquidated, thus allowing for a robust recovery. Although President Ronald Reagan won a huge landslide victory in the 1984 elections, few people remember that in 1982, as the recession raged on, most political experts had declared Reagan to be politically dead and there was open talk in Republican circles of someone else filling the GOP ticket for 1984.

Had the Reagan Administration—however unwittingly—not permitted the liquidation process to go on, it is doubtful that the economy would have experienced a strong recovery in 1983 and 1984. Unfortunately, the administration of George W. Bush does not see things that way, and the government has been desperately attempting to keep the needed economic liquidation from occurring. From the Fed's setting interest rates at near-zero levels to massive housing subsidies to steel and lumber tariffs to the latest re-emergence of huge farm subsidies, not to mention the saber rattling of the so-called war on terror, the Bush Administration has failed to permit the economy to settle back into its correct proportions.

While I applaud the president's attempts to cut the tax burden, his plans to increase government spending and pay for it with borrowed money makes his entire economic package a hollow one at best. Moreover, the Democrats seem to be taking their orders from Paul Krugman, who seems to believe that inflation plus a few checks from the already-bankrupt U.S. Treasury will cure nearly every economic ill.

The belief that our present economic downturn is nothing more than a lack of "aggregate demand" is simply wrongheaded on all counts. First, "aggregate demand" is in and of itself a fraudulent term. It assumes that all spending—and all investments and capital, for that matter—are homogeneous when they clearly are not. Furthermore, it is impossible to measure "aggregate demand," and even the way that it is shown (with the Consumer Price Level on the "y" axis) presupposes that inflation is the key to consumption. To put it another way, "aggregate demand" is, as economist Roger Garrison once put it, a way to try to teach macroeconomic principles "on the cheap" by trying to model the entire economy with single demand and supply curves.

Not only is the methodology of measuring "aggregate demand" terribly flawed, but the belief that simply encouraging "consumer spending" by placing more money in the hands of people through the "magic" of inflation is also ridiculous. Let me explain.

Cranks like Kudlow and Krugman write that if the government finds a way to quickly increase the incomes of individuals, then those folks are likely to spend a goodly portion, if not all, of the new money on items like a new car or television or some other set of goods. Inventories for those goods will be cleared at the "old" prices and people who sell those goods will have at least a temporary source of further employment. (Where they differ is that Kudlow believes in more across-the-board tax cuts, while Krugman wants only lower-income people to get the new money, since he believes they will be more likely to spend the money immediately.)

Even if the scenario painted by the cranks is true, there is nothing in their plan that will lead to economic growth. At best, items that had been languishing in warehouses and elsewhere will be sold, but that does not provide a signal to investors and business executives to engage in further investment of new capital—or even to keep current lines of production open.

For example, one of the demands made by Democrats is that any tax cut be temporary and limited to lower-income individuals. While I would welcome any reduction in taxes to anyone at any time, the idea that this plan would "stimulate" the economy is simply ridiculous. At best, it would permit existing inventories to be pared down, but that is about the extent of its "stimulus" qualities. Apparently, anything that might permit solid long-term possibilities of economic growth is anathema to the nation's policymakers of both parties.

Unfortunately for the political classes (and the rest of us who have to live with the political classes), the key to setting the table for economic recovery is to endure the liquidation without trying to interfere. Since any politician who "doesn't do anything" to stop the recession, either by intervening to keep firms in business or doling out government largess to those who lose their jobs, will come under heavy criticism, the prospects of non-intervention during this critical period are just about nil. Thus, the "compassionate" politicians are those who actually are doing the most damage to the economy.

During Bill Clinton's 1992 presidential campaign, his manager, James Carville, posted "It's the economy, stupid" signs throughout campaign headquarters and elsewhere. Perhaps we need a new slogan to fight the recession: It's the liquidation, stupid. While I doubt the motto will catch on with Bush and his political rivals, in the end, it really is the liquidation. Those who ignore this kernel of truth really are the stupid ones. □

William Anderson, an adjunct scholar of the Mises Institute, teaches economics at Frostburg State University.

HOW TO RELAX AND ENJOY THE END OF THE WORLD

by Bill Bonner

The world as we have known it is coming to an end, but what do we care? We laugh and vow to enjoy it.

It took the Roman Empire hundreds of years to fall. During that time, most people didn't even know their world was coming to an end. Most must have gone about their business, planting their crops, drinking their wine and bouncing children on their knees, as if the empire were eternal.

Of course, the mobs in Rome itself may have reeled and wailed with every news flash...

...the barbarians had crossed the Poe...and were headed South...soon, they would be at the gates!

But others lived quiet lives of desperation and amusement as if nothing had happened. And what could they have done about it anyway...except get out of harm's way and tend to their own affairs?

Plenty of people enjoyed the Great Depression. If you had a well-paying job, it must have been paradise - no waiting in lines, no need for a reservation at good restaurants. Keeping up with the Joneses had never been easier - because the Joneses were in reverse! If much of the satisfaction of life comes from feeling superior to other people...what better time than a depression to enjoy it?

Besides, here at the Daily Reckoning, dear reader, we're suspicious of headline events. We could never quite get into the spirit of the Great Boom of the '90s...we doubt we'll get much juice from the Great Bust either. Nor can we get very enthusiastic about going to war against enemies we don't know for reasons we can't understand.

It is a character defect; we just can't seem to get in tune with mass sentiments. We've never been able to do 'The Wave' at baseball games without feeling like a fool. Now,

we can't even watch football on television without falling asleep.

But that is the way of the world; one madness leads to the next. A man feels excited and expansive because the economy is said to be in the midst of a New Era...and then he feels a little exhausted when he discovers that the New Era has been followed by a New Depression. And all the while, his life goes on - exactly as it had before. His liquor is no better, his wife no prettier or uglier, his work every bit as insipid or inspiring as it was before.

And we have no complaint about it!

Still, "the world is too much with us," wrote Emerson:

"Most men have bound their eyes with one or another handkerchief, and attached themselves to some one of these communities of opinion. This conformity makes them not false in a few particulars, authors of a few lies, but false in all particulars. Their every truth is not quite true. Their two is not the real two, their four not the real four; so that every word they say chagrins us, and we know not where to begin to set them right. Meantime nature is not slow to equip us in the prison-uniform of the party to which we adhere. We come to wear one cut of face and figure, and acquire by degrees the gentlest asinine expression..."

What better time to shut the world out and wipe that silly grin off our face than now - when the world we have known for 5 decades is coming to an end?

American consumer capitalism is doomed, we think. The trends that couldn't last forever seem to be coming to an end...or they will soon. Consumers can't continue to go deeper into debt. Consumption can't continue to take up more and more of the GDP. Capital investment and profits can't go down much further. Foreigners will not continue to finance Americans' excess consumption until the Second Coming - at least not at the current dollar price. And fiat, paper money will not continue to outperform the real thing - gold - forever.

America will have to find a new economic model; for it can no longer hope to spend and borrow its way to prosperity.

This is not a cyclical change...but a structural one, which will take a long time. Partly because structural reforms - that is, changing the way an economy functions - do not happen overnight. And partly because the machinery of collectivized capitalism resists change of any sort. The Fed tries to buoy the old model with cheaper and cheaper money. The government comes forward with multi-billion dollar spending programs to try to simulate real demand. And the poor lumpeninvestoriat - bless their greedy little hearts - will never give up the dream of American consumer capitalism; it will have to be crushed out of them.

The world is so much with these people. TVs are turned on 24-7. Thinking en masse, the latest news gets homogenized into one gloppy paste, where America's success as an economy is amalgamated with its success in the war against terror. "Considering that we're going to get an uptick in corporate profits and a quick win over Iraq," said Scott Black in one of Barron's Roundtables, "I think the market will be up 5% to 10% for the year."

Meanwhile, America has become such an outsized military power that the world has become 'unipolar,' say the latest editorials. 'Tis a strange world with a single pole, we note; out of balance, it cannot last.

Nature abhors a monopoly. Thus must America find a way to destroy itself...and seems to have found two:

First, its consumer economy depends entirely upon the kindness of overseas strangers. When they are finally fed up, Americans will have to stop buying...and start saving themselves. Since it is something that must happen, we will be happy to see it happen, for we might as well rail against death as oppose an inevitable change in the economy. "It will all have to be adjusted someday," as Paul Volcker put it. Why not enjoy it?

Secondly, George W. Bush turned the gods of war against America when he announced that the U.S. would initiate armed conflict - with any nation it feels poses a threat. He has only to pursue this strategy, and he will eventually turn the whole world against America, too. We don't know where this leads, but we will try to make the most of it.

Here at the Daily Reckoning, we have already made our New

Year's resolutions. We will try to remember birthdays and vintages...we resolve to find a better way of curing ham...and, oh yes, we will buy gold on dips and sell the dollar and stocks on rallies. The Trade of the Decade, we keep saying, is to sell stocks and buy gold. This trade has been good to us so far. At its peak in March 2000, it took 41 ounces of gold to buy the Dow. You can buy it now for about 25 ounces. Before the decade is over, and here we take a wild guess, it will be one-to-one, as it was before the Great Boom began.

This may or may not be a profitable strategy, but we don't care. We will do what we ought to do, even if it turns out to be unprofitable. Occasionally we will do what we ought not, too, but that will be just for fun. □

Bill Bonner

Health Care Interventionism: A Case Study

By Christopher Westley

We are often told that 40 million Americans lack health insurance, and that this is a scandal caused by greedy health care providers in the private sector constantly raising health care costs. This simply must be true because it is told to us by Those Who Care.

Of course, there is much more to this story than the storytellers let on. Many of the uninsured are uninsured by choice, and not by necessity. Health care costs rise in response to providers trying to recover losses emanating from government interventions into an alarmingly socialized medical industry. (That prices tend to fall in industries marked by scant intervention leads one to the conclusion that if "public servants" really cared about helping the poor and sick, they would simply go away.)

The truth is that his story is largely a myth promoted by those who stand to benefit in some way by a bigger government. This explains why events such as those that recently happened in my own state of Alabama rarely receive media coverage.

Several years ago in Birmingham, a private initiative to stem the flow of the uninsured to area emergency room facilities resulted in a program known as HealthPlus. In this program, doctors would volunteer their time and facilities to provide frequent emergency room visitors primary medical care. The care would be less expensive than trips to the ER, and unlike the ER, payments could be made on a sliding scale. Besides reducing the burdens placed on local health institutions, HealthPlus would provide the working poor an avenue through which they could receive the preventative care necessary to reduce their future use of them.

It sounded like a great program, reflecting the efforts of private individuals to try to deal with problems made worse by government regulations, such as those governing the use of private ERs. It suggested some of the ways that the working poor might be served by a free market in medicine if one were ever allowed to come about. Its army of doctor-volunteers underscored the notion that factors other than greed were causing health care costs to spiral.

What's more, HealthPlus was geared to the segment of the 40 million uninsured that is most often invoked by medical socialists to justify the U.S. government's adoption of a Canadian or British health care system. As a result, HealthPlus attracted funding from the Robert Wood Johnson Foundation for a three-year test.

However, one problem became obvious two years into the program. Very few people wanted to use it. To effect a genuine reduction in ER crowding, HealthPlus had to attract 3000 patients. After two years, it succeeded in attracting only 500 individuals to sign up for the program, and of these, far fewer kept their follow-up appointments at participating clinics. Recently, the program was declared a failure and officials withdrew their last year of funding totaling $150,000.

What happened? While focus groups showed that patients perceived emergency room care to be of higher quality, they also showed that patients considered the convenience of using the ER option more important than the financial and health benefits that would result from utilizing alternatives provided through HealthPlus.

Since programs such as HealthPlus have been successful in other states in getting patients out of emergency rooms and into primary care by offering medicine and doctor's visits free of charge to recipients, there will most likely be an effort to resurrect the program with these benefits.

In truth, the demise of HealthPlus illustrates the unintended consequences that accompany any government intervention of market forces. In this case, federal regulations require private owners of hospitals to provide health care to all comers. The intent is to create a medical safety net to uninsured individuals in need of health care and unable to otherwise pay for it.

Hospitals provide this service, but at higher prices than they charge patients utilizing non-ER-using customers. Efforts to force hospitals to reduce this price results in an overuse of these facilities by the uninsured and a general increase of prices for all other consumers of health care.

This result is completely congruent with economic theory in general, and Austrian theory in particular. As Mises argued over seven decades ago in his *Critique of Interventionism*, such solutions inevitably lead to more interventions in the future. By creating unforeseen problems, they lead to more government programs to deal with problems that would not otherwise exist prior to the initial intervention. As this process repeats itself, whole industries can become effectively socialized. No one is happy with the results save for the government bureaucrats charged with overseeing it.

This point is important to remember when policymakers discuss providing free medical care to repeat-ER users in an effort to make HealthPlus-like programs work as designed. Such efforts actually harm the very people they are intended to help. While reducing crowding problems in the ERs, other problems would arise, such as the creation of perverse incentives to those receiving the aid to remain both uninsured and dependent on the fruits of other's labor.

Moral hazard problems abound, as those receiving the entitlement have little incentive to avoid unhealthy behavior. This solution also further legitimizes the seizure of wealth and giving it to others—in this case, of tax dollars going to doctors so as to allow recipients of medical care to continue to pay a zero-price for it.

In the process, both doctors and patients become dependent on the expansion of medical welfare programs, thus making such programs ends in themselves and providing reliable voting blocs for the politicians that make them possible.

These are parts of the health care story that do not make it into much of the mainstream press and they should be remembered the next

time you hear of the 40 million Americans who lack health insurance. One wishes they were merely fairy tales. They can, however, have happier endings once enough people stand athwart the system, and yell stop. □

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Living-wage Follies

by John B. Egger

Sympathy and justice are wonderful. I'm all for them. But neither is furthered by the "living wage" movement. My own university, to its great credit, hasn't surrendered in undeserved guilt, as a couple of letters in the student newspaper and our Interim President's appropriate and courageous response to protestors illustrate. But I think the proper role of a professor is to focus on basics. There's room for just a few here.

First, one must not identify a person with that person's labor. This mistake sounds vaguely Marxist; certainly nobody who understands capitalism confuses the two. I wouldn't pay a Nobel laureate more than $10 to clean my gutters, but that's not my judgment of his worth as a human being and neither intends nor conveys any disrespect. This error pops up in the "living wage" argument that respect for workers *as human beings* requires a higher price *for their labor*. Human beings are so much more than their labor, and it's interesting that capitalists seem to understand that better than do the living-wage protesters.

Second, any argument must be rejected if it involves "real worth (or value)" determined independently of markets. This error, again found in Marx's "labor theory of value," was cleared up in the 1870s with Carl Menger's insight that value is always an individual's subjective judgment shaped by context. Here's the principle: If I'd pay $100 to have a task done, and you'd do it for $2, we might bargain to $60, a price at which I'm paying less than it's worth but you're receiving more than it's worth. Paradox or contradiction? Not with "to me" and "to you" properly inserted. And the question "Yeah, but what's it *really* worth?" has no meaning whatsoever.

If many more buyers and sellers jumped in, their competition would establish a price (say $6 per hour) for this type of labor at which the buyers to whom it is worth more, and the sellers to whom it is worth less, are equal in number (say 1,000 person-hours per day). That thousandth hour is worth barely more than $6 to its buyer and barely less than $6 to its seller. Prudent economists are a little uncomfortable concluding that this market price "measures value," but it's the best anyone can do. So whether your interest is "the living wage," economic systems

without markets, or "comparable worth" legislation, keep in mind
that "worth" or "value" cannot be determined except by voluntary market exchange.

Rather than pursuing economic issues that were nicely addressed by our student letter-writers, I'll conclude my short list of basics with a couple of related implications of the moral foundation of capitalism. They may be less familiar and more controversial, but it's vital that our judgments of equity be consistent with our widely held value of freedom.

Third, it's important to appreciate that traders deal essentially as equals. That's because voluntary exchange requires each participant to make the trade beneficial to the other. Consider a rich executive who's negotiating for the care of her lawn. Distracted by her wealth, we might stop with the insight that the contractor must meet her terms, suggesting her power over him. But he has terms too, and she must meet them or he walks, so he has the same power over her.

Of course differences in wealth, education, gender, race, or social status are relevant to many issues, but not to the principle that traders deal as equals. Again, the thoughtful scholar of capitalism is aware of this; it's various protesting critics who seem to view the less-wealthy as second-class citizens. That's curious, but not really surprising.

Fourth and finally, everyone who's genuinely concerned about human dignity must take seriously the implications of capitalism's "trader ethic." It requires each party to respect the other, to acknowledge that what one receives must be earned by providing the other greater value in return. (Indeed, that's what "earning" means.) Neither receives nor grants charity; each honestly pays for the value he receives.

This is how to treat others with dignity, not by paying more for labor than its market price and thereby turning an honestly earned (even if not very high) wage into a mixture of wage and dole. Many proud workers, like some I've dealt with, are insulted if they are offered more than they asked for or think a job is worth. If one wants others to have both dignity and more money, that money has to be earned through greater skill and responsibility. One doesn't respect others as equals by posturing as a noble grantor of charity without whose gifts the weak recipients of one's welfare couldn't make it.

It's encouraging to see energetic and intellectually curious members of our community caring about others, but feelings not properly directed by reason can do more harm than good. The university shouldn't put its workers on its own welfare system. To respect their dignity we must pay them what they earn, and that can be established only on the market.

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