Nelson Nash’s Monthly Newsletter

September 2009

Nelson Nash’s live BYOB-IBC seminars for the next two months (The seminar sponsor or contact person is listed with phone and/or e-mail address in case you want to attend)

Tuesday-Wednesday, 15-16 Sept, Tyler, TX Matt Nocas, mnocas@icmo.net

Tuesday-Wednesday, 22-23 Sept, Nacogdoches, TX, Ricky Heard, CBH Insurance Agency, Inc. 936-564-1735, rickyh@cbhins.com

Thursday-Friday, 24-25 Sept, Austin, TX, Teresa Kuhn, Safe Harbor Strategic Insurance Group, LLC, 512-301-7702 tkuhn@safeharborins.com

Friday-Saturday, 2-3 October, Pittsburgh, PA Area, Doreen George (724) 452-0481, doreen@georgefinancial.net, or Tom Young 724-728-6820, firedupt@comcast.

Thursday-Friday, 22-23 October, Salem, OR, Michele McFie Michele@Life-Benefits.com, 503-363-5433, Toll Free: (866)-502-2777

Wednesday-Thursday, 28-29 October, Wilkes Barre, PA, Tim Yurek, 570-826-1801, tyurek@jacobicapital.com

Nelson’s Favorite Quotes of the Month

“The problem with socialism is that eventually you run out of other people’s money.”

~ Margaret Thatcher

“You cannot legislate the poor into freedom by legislating the wealthy out of freedom.

“What one person receives without working for, another person must work for without receiving.

“The government cannot give to anybody anything that the government does not first take from somebody else.

“When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for; that, my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it.”

~Dr. Adrian Rogers (1931-2005)

Here is a listing of Nelson’s newly added Book Recommendations

PAPER MONEY by Adam Smith

The following articles are Nelson’s favorite finds from the last month’s reading

Prepare for a Long Period of Downsizing

Date 11/08/2009
The Right Side | By Bill Bonner

What’s ahead?

A “Lost Couple of Decades...” says Comstock partners.

Yesterday, we estimated that it would take 19 years for the economy to complete its de-leveraging. It was not a very scientific estimate. But total debt has gone down about $2 trillion over the last 24 months. So, if it continued at that rate, it would take about 19 years to erase the extraordinary amount of debt built
up in the bubble years.

Now, along comes the Comstock crowd with roughly the same guess – two decades. They figure that the savings rate will go up to 10% and that the effect of taking that money out of the consumer economy will be to put the US into a long, soft slump – just as we predicted in our first book.

And there’s another reason to expect a very long period of downsizing: that’s just the way economies work. Market cycles are very long. Interest rates went up from the Great Depression all the way to the Reagan Administration. Then, they went down... and may still be going down. Stocks go up and down in cycles that last 30-40 years, peak to peak. The peak in ’29 was followed by another peak in ’66 which was followed by another peak in ’99.

Economic cycles are long too. Consumer debt, compared to disposable income, hit a low in 1945. It went up for the next 62 years. It only peaked out in 2007. If the chart were symmetrical, the process of de-leveraging (getting rid of debt) would show a downtrend until 2069!

And maybe it will.

But there’s no point in looking that far ahead. What we have in front of us is the opening stage of a depression... a market crash followed by a major economic re-adjustment. The new reality is that consumer demand is down... and will stay down for a very long time, at least until debt has reached more manageable proportions. Ken Rogoff says that will take 6-8 years. We say it could take 19 years. There’s about $20 trillion in excess private sector debt to be eliminated. It will take time to get rid of it.

And it will take time to re-jig the world’s economies to the new economic realities.

John Hussman explains...

“The U.S. economy lost a quarter of a million jobs in July. Meanwhile, over 400,000 workers abandoned the labor force (and are therefore no longer counted among the unemployed), which prompted a slight decline in the unemployment rate despite the job losses . In the context of an economy still straining by high levels of consumer debt and still record delinquency and foreclosure rates, labor market conditions are still troublesome. Still, the pace of job losses and new unemployment claims has clearly softened from the pace we observed early in the year.

“If we knew that this was a standard economic downturn, we might conclude that the recent improvements are durable. However, nothing convinces us that this is a standard economic downturn.

“Call me skeptical. But if you look carefully at the economic data that shows improvement, and correct for the impact of government outlays, it is difficult to find anything but continued deterioration in private demand and investment. What we do see is a government that has run what is now a trillion dollar deficit year-to-date, representing some 7% of GDP.

“That sort of tab will undoubtedly buy some amount of Cool-Aid, but it has been something of a disappointment to watch how eagerly investors have guzzled it down. It is not at all clear that short-term, deficit-financed improvement necessarily implies sustained growth in the context of a deleveraging cycle. This is like somebody borrowing money from their Uncle and then celebrating that their income has gone up.

“When market crashes are coupled with changes in the fundamentals that supported the preceding bubble – as we observed in the post-1929 market, the gold market of the 1980’s, and the post-1990 Japanese market, and currently observe in the deflation of the recent debt bubble – they typically do not recover quickly. Indeed, the hallmark of these post-crash markets is the very extended sideways adjustment that they experience, generally for many years.

Economics of Oblivion

Mises Daily by George Koether | Posted on 8/11/2009 12:00:00 AM

Albert Jay Nock believed Gresham’s Law operated in ideas as surely as in economics, with error
displacing reason from men’s minds as inexorably as bad money drives good money from men’s markets. Nock’s theory seems fast on the way to proof a posteriori, especially in our colleges and universities and particularly in the teaching and textbooks of the “new economics.”

The “new economics” — as propounded by Professors Samuelson, Tarshis, Bowman and Bach in these textbooks used in hundreds of America’s best-known colleges and universities — is nothing more than Keynesianism, which, in turn, has many points of similarity to Marxism and the theories of that hyper-inflationist, John Law. In sum, the “new economics” is simply socialism, not “new” at all, but the same old bird dressed up in the feathers of “compensatory fiscal policy,” “national income approach,” and the “mixed economy.”

Keynes, who popularized but did not spawn the “new economics,” frankly admitted his affection for socialism:

The State will have to exercise a guiding influence on the propensity to consume … a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment … the necessary measures of socialization can be introduced gradually…[1]

Today’s professors are more cautious. They look down their noses at “socialism,” preferring the phrases “public economy” and “welfare economics.” All the while they pay ostentatious lip service to the achievements of freedom:

[O]ur mixed free enterprise system … with all its faults, has given the world a century of progress such as an actual socialized order might find it impossible to equal. (Samuelson, p. 746)

[I]t must not be supposed that to seek profits is an act of villainy…. Naturally everyone wants to make as much income as he can…. These actions are not censured. (Tarshis, p. 30)

Traditionally, American ideology has glorified such a [private enterprise] system. Individual initiative and independence are its positive values…. The state exists for the individual rather than the individual for the state. (Bowman and Bach, p. 42)

**The Mixed-up Economy**

Naturally the professors do not want to kill the free market entirely, else where would they get prices from which to calculate their impressive computations in the “new economics”? But even while embracing “free enterprise” they suffocate it. Their consummation of this love-death is curiously contrived. They begin by assuming that laissez-faire died a deserved and natural death.

[I]nequality in access to profit and job opportunities [implies] an inherent inconsistency in the private-enterprise, free price system itself. (Bowman and Bach, p. 14)

Even if the system worked perfectly … many would not consider it ideal…. The private economy is often like a machine without an effective steering wheel or governor. (Samuelson, pp. 39, 397)

We have given up our psychological and philosophical predilection for laissez-faire reluctantly. Most of us have not welcomed government intervention in economic life…. We have been compelled to call upon the government. (Tarshis, pp. 53–4)

Laissez-faire is dead, long live the “mixed economy!” Unfortunately it is often difficult to tell which is more mixed, the economy or the professors. They try their best to seem as sincerely opposed to “complete” socialism as they are obviously cocksure rugged individualism is gone forever. Their “mixed economy” seems to be a course midway between capitalism and socialism, with careful avoidance of the “bad” in each.

The difficulties they encounter in trying to steer between the Scylla of socialism and the Charybdis of capitalism would be amusing if the implications were not so tragic. Samuelson, for example, begins bravely:

After one has thoroughly mastered the analysis of national income determination, it is not hard to steer one’s way with confidence in these seemingly difficult fields (p. 11).
Then, embarking on a carefully calculated Keynesian course, he asserts that private enterprise cannot guarantee that there will be just exactly the required amount of investment to ensure full employment: not too little so as to cause unemployment, nor too much so as to cause inflation … the system is without any thermostat … the system is in the lap of the gods. We may be lucky or unlucky … (pp. 261–2)

and so, to prevent the ill luck that might result from private investors following their own inclinations in a free market, Professor Samuelson pompously tells us,

Fortunately, things need not be left to luck. We shall see that perfectly sensible public and private policies can be followed which will greatly enhance the stability and productive growth of our economic system. (p. 262)

Wherewith he plots a pretty series of “propensity-to-consume” and “propensity-to-save” curves based on figures compiled by the Bureau of Labor Statistics taken from a 1944 study of urban families (“with data for all families rounded and smoothed off”) and shows us how to compute, numerically, the “marginal propensity to consume (MPC)” and its “Siamese twin” the “marginal propensity to save (MPS),” triumphantly concluding: “We are now prepared for the theory of income determination.” But wait, there is a catch coming.

[A] few final warnings are in order…. Suppose my income were to go from $5000 a year to $40,000 a year. Would I spend and save my money in the same way that the budget studies showed $40,000-a-year people spend their money? Not necessarily. Especially at the beginning, I would be a nouveau riche and have different patterns of behavior. (p. 269)

Cake Is When You Eat It

So statistics are too tricky to trust as a basis for generalizations in economic theory. The elaborate equations, graphs, curves and charts, must take into account “important qualifications” and “other reasons why the propensity-to-consume schedule might shift around.” Samuelson admits,

[A]t the end of World War II, many economists made a famous wrong prediction. They neglected the fact that people came out of the war with greatly … savings; for this and other reasons, the consumption schedule turned out to be at a higher level than many pessimistic predictions had indicated. Again we are reminded that no social science can have great exactitude. (pp. 269–70)

Wrong again. Economics does have great exactitude, but it is a qualitative, not a quantitative exactitude. The economist cannot know the number or size of all the cakes in the world, or when they will be eaten, but he is dead certain that whoever eats his cake no longer has it.

That is more than the Keynesians seem to know. Their theory implies you cannot have your cake until you do eat it. You can spend your way into prosperity. The formulas say so:

Could a nation fanatically addicted to deficit spending pursue such a policy for the rest of our lives and beyond? … the barrier to this would not be financial. The barrier would be political. (Samuelson, p. 416)

There is no sign that a high debt exhausts the credit of the government…. And since as a last resource “it can borrow from itself,” there need be no fear on this account. (Tarshis, p. 535)

Even the Brannan Plan fits into the “new economics”:

Government programs to limit crops … and to raise the price to the producer while keeping it low to the consumer are all understandable in terms of diagrams of supply and demand. (Samuelson, p. 452)

As for the problems of increasing American investment in foreign lands (i.e. the problem of the “dollar shortage”), Professor Tarshis has the typical Keynesian answer:

If we could only export one of the printing presses used for the manufacture of Federal Reserve notes to, let us say, China, our foreign investment would be enormously higher. (p. 391)

This “new economics” is neither new nor economics. Instead, it is a concatenation of statistics, mathemat-
ics and social philosophy used in support of the age-old sophistries of government inflationism. Every one of these old nostrums, served up with formulas and charts, was exposed long ago. The “periodic business crises,” lamented as an inherent deficiency of free enterprise, have been shown to be nothing more than inevitable periods of deflation following repeated periods of inflation brought on by government-directed credit expansion. These followers of Keynes forget, when they reiterate the necessity of “maintaining full employment,” that labor is more scarce than the material factors of production, that in a truly free market there can be no such thing as prolonged mass unemployment.

They forget, when they apply their formulas and extend their curves, that there are no constant magnitudes in economics, that statistics of “national income” are merely data of history not useful for the development of economic theory. They forget that trying to maintain a high “national income” with printing-press money is as hopeless and as helpless for people as trying to cure sick patients by writing unfilled prescriptions. And they forget, when advocating government intervention, that government does not own anything which is not first taken from the people, that government can only help some people at the expense of others or, by inflationism, make matters worse for everybody.

These advocates of a “mixed economy,” well meaning and sincere though they may be, fail to realize that there can be no such thing as a “mixed economy” — part capitalistic and part socialist. Production is directed either by the market or by a National Production Authority. One ends by precluding the other. In the long run Americans will have either economic freedom or socialism in toto. Textbooks like these will certainly not help them retain what measure of freedom they have left.

**Absent-Minded Professors**

Through all the record of history is strewn the wreckage of nations ruined by inflationism. Yet these Keynesians stubbornly pursue their will-o’-the-wisp of managed money and the magic of a multiplier. When, under a government-induced inflation of the money and credit supply, unemployment shrinks or completely disappears, the phenomenon does not corroborate the “triumph” of their theories. It is due, simply, to the fact that the rise in wage rates has lagged sufficiently behind the rise in prices to cause a drop in real wage rates, precisely as the classical economists have long insisted. The Keynesians forget this obvious fact. Theirs is the economics of oblivion.

After listening to these ten hours of audio, you will know more real economics than most econ majors.

One can explain the widespread popularity of socialist ideas, despite their inconsistencies, among the uninformed masses. But the authors of these textbooks claim competence in economics. Presumably they are as familiar with Böhm-Bawerk, Jevons, Walras, Wicksell and Mises as they are with Marx and Keynes. One would not think so, to read their books.

What is even more inexplicable is their insisting they do not want socialism when their hero, Keynes, served notice more than thirty years ago:

> [T]he sharp distinction, approved by custom and convention during the past two centuries, between the property and rights of a State and the property and rights of its nationals is an artificial one, which is being rapidly put out of date … and is inappropriate to modern socialistic conceptions of the relations between the State and its citizens.[2]

and sixteen years later added,

> It will be, moreover, a great advantage to the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain and will need no revolution.[3]

Apparently Gresham’s Law is functioning — as Albert Nock felt it would — upon the minds of Professors Samuelson, Tarshis, Bowman and Bach.

George Koether (1907–2006) was a journalist, speechwriter, businessman, lecturer, economist, a friend to Ludwig and Margit von Mises, and a longtime ambassador for Misesian economics. See
this post on the Mises blog written at the time of his death. See his article archives. Comment on the blog.

This review originally appeared as “Economics of Oblivion” in The Freeman, April 7, 1952.


You can subscribe to future articles by George Koether via this RSS feed.

Notes

The Whole Foods Alternative to ObamaCare

Eight things we can do to improve health care without adding to the deficit.

By JOHN MACKEY

“The problem with socialism is that eventually you run out of other people’s money.”

—Margaret Thatcher

With a projected $1.8 trillion deficit for 2009, several trillions more in deficits projected over the next decade, and with both Medicare and Social Security entitlement spending about to ratchet up several notches over the next 15 years as Baby Boomers become eligible for both, we are rapidly running out of other people’s money. These deficits are simply not sustainable. They are either going to result in unprecedented new taxes and inflation, or they will bankrupt us.

While we clearly need health-care reform, the last thing our country needs is a massive new health-care entitlement that will create hundreds of billions of dollars of new unfunded deficits and move us much closer to a government takeover of our health-care system. Instead, we should be trying to achieve reforms by moving in the opposite direction—toward less government control and more individual empowerment. Here are eight reforms that would greatly lower the cost of health care for everyone:

• Remove the legal obstacles that slow the creation of high-deductible health insurance plans and health savings accounts (HSAs). The combination of high-deductible health insurance and HSAs is one solution that could solve many of our health-care problems. For example, Whole Foods Market pays 100% of the premiums for all our team members who work 30 hours or more per week (about 89% of all team members) for our high-deductible health-insurance plan. We also provide up to $1,800 per year in additional health-care dollars through deposits into employees’ Personal Wellness Accounts to spend as they choose on their own health and wellness.

Money not spent in one year rolls over to the next and grows over time. Our team members therefore spend their own health-care dollars until the annual deductible is covered (about $2,500) and the insurance plan kicks in. This creates incentives to spend the first $2,500 more carefully. Our plan’s costs are much lower than typical health insurance, while providing a very high degree of worker satisfaction.

• Equalize the tax laws so that employer-provided health insurance and individually owned health insurance have the same tax benefits. Now employer health insurance benefits are fully tax deductible, but individual health insurance is not. This is unfair.

• Repeal all state laws which prevent insurance companies from competing across state lines. We should all have the legal right to purchase health insurance from any insurance company in any state and we should be able use that insurance wherever we live. Health insurance should be portable.

• Repeal government mandates regarding what insur-
ance companies must cover: These mandates have increased the cost of health insurance by billions of dollars. What is insured and what is not insured should be determined by individual customer preferences and not through special-interest lobbying.

• Enact tort reform to end the ruinous lawsuits that force doctors to pay insurance costs of hundreds of thousands of dollars per year. These costs are passed back to us through much higher prices for health care.

• Make costs transparent so that consumers understand what health-care treatments cost. How many people know the total cost of their last doctor’s visit and how that total breaks down? What other goods or services do we buy without knowing how much they will cost us?

• Enact Medicare reform. We need to face up to the actuarial fact that Medicare is heading towards bankruptcy and enact reforms that create greater patient empowerment, choice and responsibility.

• Finally, revise tax forms to make it easier for individuals to make a voluntary, tax-deductible donation to help the millions of people who have no insurance and aren’t covered by Medicare, Medicaid or the State Children’s Health Insurance Program.

Many promoters of health-care reform believe that people have an intrinsic ethical right to health care—to equal access to doctors, medicines and hospitals. While all of us empathize with those who are sick, how can we say that all people have more of an intrinsic right to health care than they have to food or shelter?

Health care is a service that we all need, but just like food and shelter it is best provided through voluntary and mutually beneficial market exchanges. A careful reading of both the Declaration of Independence and the Constitution will not reveal any intrinsic right to health care, food or shelter. That’s because there isn’t any. This “right” has never existed in America.

Even in countries like Canada and the U.K., there is no intrinsic right to health care. Rather, citizens in these countries are told by government bureaucrats what health-care treatments they are eligible to receive and when they can receive them. All countries with socialized medicine ration health care by forcing their citizens to wait in lines to receive scarce treatments.

Although Canada has a population smaller than California, 830,000 Canadians are currently waiting to be admitted to a hospital or to get treatment, according to a report last month in Investor’s Business Daily. In England, the waiting list is 1.8 million.

At Whole Foods we allow our team members to vote on what benefits they most want the company to fund. Our Canadian and British employees express their benefit preferences very clearly—they want supplemental health-care dollars that they can control and spend themselves without permission from their governments. Why would they want such additional health-care benefit dollars if they already have an “intrinsic right to health care”? The answer is clear—no such right truly exists in either Canada or the U.K.—or in any other country.

Rather than increase government spending and control, we need to address the root causes of poor health. This begins with the realization that every American adult is responsible for his or her own health.

Unfortunately many of our health-care problems are self-inflicted: two-thirds of Americans are now overweight and one-third are obese. Most of the diseases that kill us and account for about 70% of all health-care spending—heart disease, cancer, stroke, diabetes and obesity—are mostly preventable through proper diet, exercise, not smoking, minimal alcohol consumption and other healthy lifestyle choices.

Recent scientific and medical evidence shows that a diet consisting of foods that are plant-based, nutrient dense and low-fat will help prevent and often reverse most degenerative diseases that kill us and are expensive to treat. We should be able to live largely disease-free lives until we are well into our 90s and even past 100 years of age.

Health-care reform is very important. Whatever
reforms are enacted it is essential that they be finan-
cially responsible, and that we have the freedom to
choose doctors and the health-care services that best
suit our own unique set of lifestyle choices. We are
all responsible for our own lives and our own health.
We should take that responsibility very seriously and
use our freedom to make wise lifestyle choices that
will protect our health. Doing so will enrich our lives
and will help create a vibrant and sustainable Ameri-
can society.
Mr. Mackey is co-founder and CEO of Whole Foods
Market Inc.

The Foolishness of Joining a Robber Band

By Paul A. Cleveland

Today we are living in trying times and our leaders
are telling us that if we would depend upon them our
futures would be secure. However, Scripture warns
us in Proverbs 1:10-19 against joining any group that
aims to make its living by robbing others and sharing
a common purse. This proverb suggests that every
scheme aimed at eliminating human hardship by
creating a common pool of sacrifices among people
is foolish. The reason that it is foolish is that sinful
people are motivated to contribute as little as pos-
sible to the pool while taking as much as possible
from it. In addition, the members of the group are
constantly looking for outsiders whom they might
rob of their economic wherewithal.

In the case of using government force to extract
tax revenues from the general populace in order to
establish special benefit programs, a determination
must be made regarding who will pay the taxes and
how will the resulting funds be used. The process of
determining these two issues will actually prove det-
ritual to the vast majority of the people, especially
the poor. In the long-run, even those who initially
benefit will be harmed as well. An examination
of the history of current state of U.S. tax laws and
spending programs should show why this is true.
The federal income tax code was established in
1913. Although the initial tax was small, it increased
steadily throughout the twentieth century. The in-
crease in federal income taxation has been used to
fund benefit programs for numerous special inter-
est. It also created a sort of political battleground
over who will ultimately pay for these benefits and
who will receive them. Over the years the political
battles have resulted in a tax code that is incompre-
hensible even for the most astute. Each successive
reform of the tax code has resulted in the imposition
tax penalties on some individuals while establish-
ing privileges for others. Increasingly, the tax code
discriminates between citizens and is used to steal
private property from some people for the benefit of
others.

It should not surprise anyone that the people who
have been the most adept at gaining and using politi-
cal power have been the biggest beneficiaries of the
programs the government has created. Moreover,
the rising tide of redistribution has not benefited the
poor in our society even though many in Washington
falsely claim to care about these people. Instead, the
escalation in taxes has resulted in the destruction of
marginal business activities which are the ones most
likely engaged in by the poorest segments of popu-
lace. What has been happening is that our govern-
ment has been punishing the poor and the middle
class by restricting their economic opportunities in
order to enhance the well-being of the politically
connected people of our land. As a result, these po-
litically connected people are living like leaches off
the backs of others. However, such parasites them-
selves must die if they kill their host.

On the spending side, numerous government pro-
grams such as corporate and agricultural subsidies,
the funding of the arts, the erection of trade barri-
ers, and a whole host of other expenditures provide
benefits for special interests many of whom are
people of considerable means. In addition to spend-
ing programs, the government has set up a vast array
of regulations which limit an individual’s ability to
participate in certain business enterprises. The com-
bination of these factors causes the prices of prod-
ucts of every kind to be higher than they would be
otherwise. And finally, of course, this has resulted in
a reduction in opportunities for the poorest segments
of society. The end result is the actual oppression of the poor. The worst part of this state of affairs is that such legal plunder is often perpetuated without troubling anyone’s conscience. Indeed, in this latest environment of the Obama administration, and their gross lust after power and money, one is left to wonder how much longer the nation’s economy can survive.

Paul A. Cleveland is part of the economics faculty at Birmingham-Southern College. He received his Ph.D. in Economics from Texas A&M University and began his career teaching at SUNY Geneseo in 1985. After spending one year as a Visiting Professor of Economics at the University of Central Florida in Orlando in 1989, he joined the faculty at Birmingham-Southern.

His principal academic research is focused on the study of free enterprise and entrepreneurial human action. In pursuing his studies, he also reads heavily in the areas of philosophy, theology, and history, which are helpful in exploring the morality of free markets. One of his main interests is an examination of the proper role of government in society and the problems created when it enacts policy mandates beyond its appropriate boundaries. In the pursuit of showing how to build and promote a free and virtuous society, he has affiliated with the Acton Institute where he serves as an Adjunct Scholar. His articles have been published in numerous places including the Journal of Private Enterprise, Idaho’s Economy, Religion and Liberty, and Ideas on Liberty. In addition to his writing, he has lectured on the free market in numerous places including universities in Lithuania, Poland, and Taiwan.

Tax Qualified Retirement Plans, etc. (Part 1)

By R. Nelson Nash

August 1, 2009

Back in 2000 I wrote Becoming Your Own Banker – The Infinite Banking Concept and in it I briefly addressed the subject of retirement plans and specifically Tax Qualified Retirement Plans. Since that time it has become more apparent to me that this idea needs to be addressed more fully. Americans have become increasingly dependent on an idea that is defective and won’t work. Basically, it is a Socialist idea and history has proved conclusively that Socialism won’t work.

There is a fundamental reason that this is so that most people fail to recognize. To make my position on this subject perfectly clear let me state that, as of this writing, I am 78 years old. I have been a Christian since age 9 and have studied the Bible through and through during these years. I have also studied, with a passion, the teachings of the “Austrian” school of economics for over 52 years. From this background it is very evident to me that all government programs are nothing more than a manifestation of man trying to play God, in the pagan sense of the word. The book of Exodus in the Bible tells you that God is a jealous God. He won’t put up with such efforts by man trying to displace Him in the order of things.

All government programs are initiated under the guise of “helping” citizens -- when the real object is to control their lives. There is always the “hidden agenda” that is never stated. And Americans swallow the apparent immediate benefit, never realizing that there is a hook in that bait. In fact, as a student of Austrian Economics, if you give me the mission statement of any government plan I can predict, in due course, the eventual outcome with absolute certainty. As Shakespeare said, “The Truth Will Out.” Just give it enough time. But man sees things over a very short time span as compared with that of God. His time table and ours is different.

All such efforts by man eventually fail but they do so over a long enough time frame that man does not see it happening to him. He is subject to the “boiled frog syndrome.” Put a frog in water his temperature and he is comfortable. Add a tiny bit of heat and he is still comfortable. He gets used to it. Add a tiny bit more and he is still comfortable, etc. Keep that process up and you can boil him! Now, I don’t
know whether that is true or not, but it is a great word picture of what has happened in the economic world of America.

Another object of this writing is to demonstrate that we live in a world of lies! Everywhere we turn we are confronted with lies to the point of not being able to recognize this fact. John Stossel wrote a book in the recent past entitled Myths, Lies and Downright Stupidity in which he demonstrates this truth. Napoleon Bonaparte is credited with the observation, “History is lies agreed upon.”

Just a few days after September 11, 2001 Stephen Yates, a Philosophy Professor affiliated with the Ludwig von Mises Institute wrote an article on LewRockwell.com about a book he had read recently where the two authors had predicted that something like 9/11 was going to occur somewhere about that time frame – give or take a couple of years on either side – that would change the world forever. Has the world changed since that time? Unless you are a “boiled frog” just look at what is happening all around you. Try taking a trip in an airplane. The world had changed significantly! All kinds of nonsense is going on under the supposed mission of protecting us.

The authors pointed out, go back 70 (+/-) years and you have The Great Depression. The world changed and has never been the same. Go back another 70 (+/-) years and you have The War of Northern Aggression – known to some as The Civil War. That was no civil war – a civil war is when two or more factions fight for control of a country. Jeff Davis, et al, in the South had no designs on taking over Washington, D.C. and running this country, no more than George Washington, et al, had in taking over London, England some 70+ years earlier. To the contrary, in both cases – they wanted to get away from the oppression of outrageous taxation! But, there is the ever-present hidden agenda that can be exposed only by historians who look deeply enough in the archives to ferret out the truth – more evidence of the fact that we live in a world of lies.

At that time the United States lived under a tax system of tariffs on manufactured goods. The South was an agricultural economy and the North was based on manufacturing. As a result 85% of the taxes were being paid by the South. Would you guess where the money was being spent? In the North, of course! If you lived in the South and were the least bit conscious of what was really going on, you would probably be a bit ticked off at this situation.

The taxes were being spent on corporate welfare – railroads, canals, internal improvements. The platform on which Lincoln ran for election was a high tariff, internal improvements, and a central bank. Henry Clay was Lincoln’s idol and he labeled it The American System. It was a mercantilist economic plan based on the “American School” ideas of Alexander Hamilton, expanded upon later by Friedrich List, consisting of a high tariff to support internal improvements such as road-building, and a national bank to encourage productive enterprise and form a national currency. This program was intended to allow the United States to grow and prosper, by providing a defense against the dumping of cheap foreign products, mainly at the time from the British Empire.

That so-called Civil War was not about slavery – it was about taxation. Read Tom DiLorenzo’s book, The Real Lincoln. Read his follow-up book, Lincoln Unmasked. Read Charles Adams’ book, When in the Course of Human Events. Read Lerone Bennet’s book, Forced Into Glory. Finally, read Emancipating Slaves, Enslaving Free Men: A History of the American Civil War by Jeffrey Rogers Hummel. When you have finished these books you will begin to see more clearly the hidden agenda that is ever present in any government activity.

Continuing with the train of thought by Stephen Yates – go back another 70+ years -- I have forgotten what happened. Then go back another 70+ years -- I forgot that one, too. But the pattern is there! You can count on it – every 70 years or so something significant happens that changes the world in which we live.

So, I e-mailed Stephen immediately and brought to
his attention that the Soviet Union came apart after 70 years. In my book, Becoming Your Own Banker I had predicted back in 1976 that Social Security would fail. Before it fails they will attempt to prop it up. The source of funds they will use is reserves on private pension plans, HR-10 plans, IRA’s, et al. People laughed at me but in less than a year the first “trial balloon” went up that this is possible. And now, it is common knowledge. In early October 2008 the incoming administration had personnel discussing confiscation of all such plans and combining them into a Guaranteed Retirement Account, or some name like that. See this website. http://www.marketoracle.co.uk/Article7254.html See how the “boiled frog” syndrome works? One small deviation from tried and true principle and people become comfortable with it. It becomes “normal.” This leads to another deviation, etc., etc. etc. In due time it will lead to a complete U-turn in behavior and acceptance.

The Constitution of the United States is a perfect example. It started out based upon proven principles, but now I’m sure that at least 90% of what goes on in Washington, D.C. has no basis in the Constitution at all.

Anyway, Social Security in the U.S. started in 1937. Do the math. We are overdue. Any day now it will self destruct. But the easiest thing the government can get to in order to try to keep the Ponzi scheme alive is to confiscate the reserves on all the other tax qualified plans. It is the largest block of securities in the world and so it will be irresistible to government authorities.

And for you Bible scholars, in the Old Testament the Israelite nation ended up back in slavery. In the book of Jeremiah he predicted they would be there for 70 years. They were only there for 68 years – but that’s close enough for government work!

All the tax qualified retirement plans are a function of the IRS Code – which has only been around since 1913. The world got along very well before income tax. We had surpluses in the national budget before then. Wise men told us what would happen when a country gets in income tax – and we see the results in spades now!

Before World War II there weren’t many pension plans. According to the Congressional Budget Office website (www.cbo.gov/) The Revenue Acts of 1921, 1926, and 1928 initiated tax advantages for employment-based retirement plans. By 1929, about 15 percent of private-sector employees were covered by employment-based plans, which were concentrated in large corporations and in sectors in which government oversight tended to be the strongest.

And, then along comes WWII. I was a teenager at that time and very aware of what life was like. When you went to buy gasoline in those days it did not matter how much money you had – the limiting factor was – do you have an A, B or C sticker on your windshield of your car. A bureaucrat in Washington knew how much gasoline you needed. This is an emergency! We have a war going on! Never mind that we had no business being involved in that war. For a starter on this subject read Churchill, Hitler, and “The Unnecessary War”: How Britain Lost Its Empire and the West Lost the World by Patrick J. Buchanan. Then read The New Dealer’s War by Thomas Fleming. And The Roosevelt Myth by John T. Flynn. Also, The Pearl Harbor Myth by George Victor.

More evidence that we live in a world of lies. And we conduct our lives on the basis of that erroneous understanding.

When the housewife went to the grocery store, it did not matter how much money she had. The limiting factor was another form of money called “ration points” and even with both these items she could only buy so much meat, so much butter, so much of this, so much of that. Everything was controlled! Frozen! A Socialist paradise!

And so were wages. You could not give anyone a raise! Well, under such restrictions, how does a business give an employee a raise without giving him a raise? Benefits, of course! This marked the real beginning of Retirement Plans and Health Plans that were tax qualified. It only applied to corporate employees. This is an exception to the IRS Code,
which was adopted in 1913. The USA didn’t declare war until December 1941. In 1950 Paul Poirot at the Foundation for Economic Education wrote an essay entitled, The Pension Idea in which he demonstrated conclusively that the idea would never work. And here we are, early in the 21st Century and we see corporate pension plans falling apart with increasing rapidity.

After WWII sole proprietors and partners noticed that because of pension plans corporate employees had a tax advantage over them. So appeal was made to the authorities, “We need a tax-break, too.” The result was the creation of Keogh Plans (HR-10 plans). Initially, participants in this category could contribute $2,500 per year to such a plan. “The contribution will be taken off your income for tax purposes this year. It will build tax-free until your retirement age – and you are going to be in a lower tax bracket at that time!” Of course, when you look at the history of the IRS Code and all the changes that have taken place – and you can rest assured there will be changes in the future – none of them to your advantage. The sole proprietors and partners agitated more and the contribution limit was raised to $7,500 per year.

More time passed and the balance of the population said, in essence, “Wait a minute, you authorities have blessed the corporate employees with a tax-break, you have blessed the sole proprietors and partners with a tax-break – what about us? Give us a tax-break, too!” And so, along comes Individual Retirement Accounts. How was the idea sold to Congress? The rationale went something like this – the savings rate among everyday Americans is decreasing – our capital base is eroding! If we will give these folks a tax-break then they will start saving more and we will solve this problem. Of course, the amount of the contribution was limited, too.

What was the result? The savings rate actually went down! Naturally! All you have to do to understand this phenomenon is watch this TV commercial in Birmingham, AL years ago by Jefferson Federal Savings & Loan. (By the way, they don’t exist any more, along with thousands of other savings & loan organizations). Ron Eason, their public relations man is sitting in a big easy chair, coffee mug in his hand before the blazing fireplace. He looks you squarely in the eye and says, “How is your retirement plan doing? Mine is fixed! I have an IRA at Jefferson Federal Savings & Loan. Do you know that for as little as $10 per month you can start an IRA there. Your contribution will be taken off your income for tax purposes and it will build tax-free until your retirement time, and you will be in a lower tax bracket at time?”

What did Joe SixPack conclude as a result of watching this commercial? He says to himself, “Wow! With a plan that good, I don’t have to save half as much as I did before!

I can take the difference and make a down payment on a boat!” And so, the savings rate went down. During that era, for two successive years, when I got my New York Life annual statement for premiums due, there was another letter from the president of the company explaining how the savings rate had gone down.

And so, following this chain of events – pension plans, then Keogh Plans, and finally IRAs and 401-Ks – now everyone has an exception to the IRS Code! All of these plans are a function of the IRS Code! Consider then, this reasoning – when government creates a problem (onerous taxation) and then, turns around and grants you an exception (any tax-qualified plan) to the problem they created – aren’t you just a little bit suspicious that you are being manipulated? All of these plans were introduced as a means of helping citizens out. If they really wanted to help, all they had to do is reduce the taxes! Do you really think they want to do that? The real object is to control your life!

Does this help you to see the hidden agenda that is always there in any government program? The best way for them to accomplish this goal is to make you dependent on them for sustenance. There is a tremendous element of dependence in the act of worship. You will worship that on which you are dependent. They sell these mind-crippling ideas through
the use of lies!

Along this chain of thought – when I got out of the Air Force in 1954 and went to work in the civilian world did you know that Social Security did not apply to Farmers? It did not apply to Doctors, Lawyers, and Clergymen, either. One by one, they succumbed to the siren song of dependence on government.

As of the time of this writing, students currently graduating from religious seminars can opt out of Social Security. Years ago, when I was in the life insurance business I convinced three young seminary graduates to opt out and simply put what they would have to put into SS into high premium whole life insurance with a Mutual Life Insurance Company. The results would be far better than any alternative. After several years of doing so, all three fell by the wayside, a victim of the siren song of government dependence. The deciding factor was the introduction of Medicare. When it came into existence it was tied to SS – one could not be covered for Medicare without being covered by SS. They just couldn’t visualize life without Medicare! The world got along very well without SS, Medicare and hundreds of other government programs for years but the hidden agenda of government methodology combined with the “boiled frog” syndrome has plunged America into a one-way trip to disaster. All empires fail – and so will this one.

Stay tuned for Part II next month.