Our Problems: Blessings in Disguise

By Leonard E. Read

Don’t think of problems as difficulties, think of them as opportunities for action. Hard as they are, they may turn out to be blessings in disguise.

— C. F. Kleinknecht

Is it not true that most people look upon their problems only as difficulties? Even worse, they regard their problems as dreaded invasions of the serene life. Why this perverse view? Problems should be likened to birth pains; the good life has its genesis in them and their “painful “ overcoming. Let’s see if we can make the case for joyfully overcoming them.

This thesis, obviously, is premised on the good life, and that needs definition. Simply stated, the good life is the opposite of stagnation or retirement; it is incompatible with the listless life. It is instead, emergence, evolution, hatching -- day by day growing along the lines of one’s creative uniqueness. There is no destination or point of arrival in the good life but, rather, a perpetual becoming.

Wrote Saint Augustine, “Happiness consists in the attainment of our desires, and in our having only the right desires.” If the purpose of life be an expanding awareness, perception, consciousness, what desire could be higher than expanding one’s consciousness into a harmony with Infinite Consciousness? Paschal put it this way: “Happiness is neither within us only, nor without us; it is the union of ourselves with God.” Of all forms of happiness this one must, in my judgement, be assessed as joyous!

The basic problem that confronts the six billion people who inhabit this earth relates to survival – to having any life at all. The first need is for food, the second is fiber. Solve these basic demands or perish!

Parenthetically, it is enlightening to recognize what it is that largely accounts for the shortness of life of a majority of the billions who are graced with birth. In a sense, it is a lack of “business” knowledge – knowledge of what is our business and what is none of our business. In India, to cite but one example, people perish by the millions because dictocrats – the know-it-alls – engage in what is none of their business. If we are more blessed with longevity in the U.S.A., it is because here, more than elsewhere, each tends to what is his own business. Hardly any freedom of choice in India, a great deal of it in the U.S.A.

For many people in some lands, life has no more problems once their needs are met for food and fiber. And equally satisfied are most Americans who live in relative luxury. Problems, regarded as painful nuisances, are in the past tense – glory be! This wrong attitude is widespread.

It is his attitude towards problems that makes or breaks the individual. “Problems make or kill you,” wrote the remarkable Austrian economist, Bohm-Bawerk. According to one of his students, Ludwig von Mises, they killed his teacher. Bohm-Bawerk, who had a profound understanding of what ought to be, saw the world going to pot as a result of Marxism. The problem pained him; the resulting distress shortened his life, as distress usually does.

Analogous to my theme is the story of a Persian Farmer named Hafed. He left his farm and searched for a diamond mine, finding none. Years later, long after the weary and penniless Hafed had died tragically in a strange land, another Persian while digging in...
Hafed’s deserted garden discovered the diamond mines of Golconda, the richest ever uncovered in the ancient world.

The point is that those problems we tend to deplore may very well be diamonds – hidden in one’s own mind, not elsewhere.

Epictetus, the Roman slave who rose to become one of the world’s great philosophers, declared that “It is difficulties (problems) which show what men are.”

It is reported that Thomas Edison made 50,000 experiments before he succeeded in producing the storage battery. He was asked if he didn’t get discouraged working so long without results. “Results!” he exclaimed, “Why I learned 50,000 things I didn’t know before.” His 50,000 problems were that many blessings in disguise.

What, then, is the formula? First solve the problem of obtaining food and fiber; this makes survival possible. Second, find a way to overcome the Command Society and achieve freedom of choice; this makes plenitude possible for one and all. But, keep right on finding problems to solve! This is only the beginning.

Having achieved the aforementioned things of this world – accomplishments of this mortal moment – look next to the immortal: life eternal. What aspect of man has the potential to be everlasting? Is it not his consciousness – the mind’s intellectual development of thought – spirit, if you prefer? In my view, it is this and this alone which is immortalized, that lives forever. It qualifies as the highest of “right desires,” for it has to do with the expanding of one’s own consciousness, as nearly as possible into a harmony with Infinite Consciousness.

The goal is nothing less than ascension in consciousness, and this is a step by step procedure. As one problem is solved or overcome, look for a higher one. For it is an observed fact that the art of becoming is composed of acts of overcoming. Although each problem will at first appear difficult and doubtless painful, once overcome it will be assessed as joyful – a blessing in disguise.

Bear in mind that problems in this higher realm are not thrust upon us as are earthly obstacles, such as the Command Society. To the contrary, they must be searched for and then overcome. Explore the unknown for problems as a means to an expanding consciousness – for gracing morality with immortality.

Finally, it becomes more and more self-evident that the free society will replace the Command Society to the extent that morality is immortalized. Why this assertion? Ours is a moral problem! It follows then that we should labor in the higher realm to free ourselves in the earthly realm. Then, indeed, will our problems – all of them – be blessings in disguise.

Don’t Go Back to the Original Constitution

By Michael S. Rozeff
July 16, 2013

A great many Americans who are dissatisfied with various facets of America’s political system, laws, rights, and justice system think that a solution is somehow to go back to the original Constitution. They do not understand that the original Constitution is a major cause of the present woes and troubles. One man who recognized and explained this and related developments many years ago is Albert Jay Nock in his 1935 book, Our Enemy the State.

My intent in what follows is to present a few of Nock’s important ideas in brief statements. All occasional observations of my own are placed in brackets.

Every increase in State power necessarily accompanies a decrease in social power.
[Social power means voluntary and private social relations, including associations and economic exchange.]  

Increases in State power reduce the disposition among people to use social power and indoctrinate the idea that social power is no longer called for.  

As State power increases, private enterprise decreases.  

The State uses contingencies of crisis and misfortune to increase its power, which in turn develops the habit of acquiescence in the people.  

The centralization of power in Washington and in the hands of the Executive are signs of the increase in State power in America, as are the expansion of State bureaucracies and the erection of poverty into a permanent political asset to politicians.  

When the State enacts “progressive” social legislation, this increases State power and reduces social power.  

The State in America was brought into being in 1789 by a coup d’état.  

The American system is nominally republican but actually imperial. The power of the ballot is empty. Parties compete for control of State power. They do not compete on grounds of actually reducing State power.  

The differences between Communism, Fascism and National Socialism are superficial in that they all involve an advanced degree of State power with correspondingly low degree of social power.  

State power advanced greatly (to totalitarian degree) in Communist Russia, fascist Italy and Nazi Germany. The conversion of social power into State power has not yet advanced as far as these countries in America. The accumulation of State power in America has been relatively noiseless, unalarming to the people and unspectacular as opposed to violent and spectacular.  

As long as American politicians intone phrases (“poetic litanies”) about freedom, democracy and rights, State power can grow and Americans “remain indifferent to their correspondence with truth and fact.”  

The average individual is incurious toward the State, accepting it as he does the atmosphere or as he accepted the Church in 1500 when it was very strong and the State very weak.  

The great advance in State power should lead us to question the nature of the State itself and not merely to investigate changes in its form (as from colonial to monarchical, monarchical to republican, republican to democratic, republican to national socialist, monocratic to collectivist, etc.). Otherwise, we simply exhibit an unquestioned acceptance of the State on its own terms.  

Government conceptually is not the same as the State.  

Government, as Thomas Paine explained, arises from society, its design and end being freedom and security. In this view, government has but two laws “the first being, Hurt no man, and the second, Then do as you please; and that the whole business of government should be the purely negative one of seeing that this code is carried out.”  

The Declaration of Independence has the same understanding as Paine, which is that to secure rights, governments are instituted among men and derive their just powers from the consent of the governed.  

Government does not arise from conquest and confiscation. The State does.  

“The positive testimony of history is that the State invariably had its origin in conquest and confiscation. No primitive State known to history originated in any other manner...Moreover, the sole invariable characteristic of the State is the economic exploitation of one class by another...every State known to history is a class-State.” Conversely, where conquest and confiscation were possible but would have brought no economic gain, the State did not arise.  

Whereas government’s nature is to secure rights to the individual by “strictly negative intervention”, the State “both in its genesis and by its primary intention, is purely anti-social. It is not based on the idea of
natural rights, but on the idea that the individual has no rights except those that the State may provisionally grant him.” [The coup d’état brought about with the U.S. Constitution was incomplete, involving, among other things, the Bill of Rights as a compromise. The subsequent gradual emasculation of the Bill of Rights is consistent with the growth of State power and Nock’s statements that the State is anti-social and not based on natural rights.]

“Taking the State wherever found, striking into its history at any point, one sees no way to differentiate the activities of its founders, administrators and beneficiaries from those of a professional-criminal class.”

“Republicanism permits the individual to persuade himself that the State is his creation, that State action is his action, that when it expresses itself it expresses him, and when it is glorified he is glorified.”

“There are two methods, or means, and only two, whereby man’s needs and desires can be satisfied. One is the production and exchange of wealth; this is the economic means. The other is the uncompensated appropriation of wealth produced by others; this is the political means.”

The State, in any form, is “the organization of the political means”. Every State engages in exploitation using power. [The feudal-State, the church-State, the collectivist-State, the landlord-State, the merchant-State, the proletarian-State, the democratic-State, the banker-State, the intellectual-State, the financier-State, the technocrat-State, the military-State, the elite-State, the corporate-State, etc. all involve a minority exploiting a majority, with the means and incidence of exploitation differing among them.]

The State’s organization for exploitation necessarily involves corruption and a gulf between private ethics and State-ethics.

Beyond a certain point, the depletion of social power by the State cannot be checked and leads to disintegration of society and civilization.

In America, the Puritan influence gave rise to a merchant-State. Its rationale had to accommodate individualism, and it did this through the Declaration’s doctrines of natural rights and popular sovereignty. These, however, came into conflict with the desire of the merchant-enterpriser for a State that would benefit him, and not for a minimal rights-protecting government:

“He was not for an organization that should do no more than maintain freedom and security; he was for one that should redistribute access to the political means, and concern itself with freedom and security only so far as would be consistent with keeping this access open. That is to say, he was thoroughly indisposed to the idea of government; he was quite as strong for the idea of the State as the hierarchy and nobility were. He was not for any essential transformation in the State’s character, but merely for a repartition of the economic advantages that the State confers.”

The earliest settlers in America, whatever attachment they may have had to local government or to civil democracy, could not indulge it because “they were in bondage to the will of an English trading-company”. It “was actually an autonomous State.” Nock quotes historian Charles Beard “… every essential element long afterward found in the government of the American State appeared in the chartered corporation that started English civilization in America.”

Nock writes “The State in New England, Virginia, Maryland, the Jerseys, New York, Connecticut, everywhere, was purely a class-State, with control of the political means reposing in the hands of what we now style, in a general way, the ‘businessman’”

“One examines the American merchant-State in vain for any suggestion of the philosophy of natural rights and popular sovereignty.”

“By way of summing up, it is enough to say that nowhere in the American colonial civil order was there ever the trace of a democracy. The political structure was always that of the merchant-State; Americans have never known any other. Furthermore, the philosophy of natural rights and popular sovereignty was never once exhibited anywhere in American
political practice during the colonial period, from the first settlement in 1607 down to the revolution of 1776.”

American enterprisers focused heavily on land and land speculation from the outset. The causes of the colonial revolution of 1776 that are assigned in schoolbooks are trivial. The main causes were, first, “the attempt of the British State to limit the exercise of the political means in respect of rental-values.” It did this in 1763 by forbidding “the colonists to take up lands lying westward of the source of any river flowing through the Atlantic seaboard.”

Most land speculation was done through companies who secured a land grant from the State and then sold it off to settlers. Many of the founding fathers were land speculators, including George Washington, Patrick Henry, Benjamin Franklin, Timothy Pickering, Robert Morris, James Wilson and Samuel Adams.

The second cause is simply that colonists wanted to have for themselves the exploitation benefits that were accruing to the British State in such areas as ship-building, freight transport and many trades. What better way than to erect their own State?

Whatever noble government protective of rights that the Declaration suggested, the influential and leading colonists were after a State, that is, “an instrument whereby one might help oneself and hurt others; that is to say, first and foremost they regarded it as the organization of the political means.”

“There was no idea of setting up government, the purely social institution which should have no other object than, as the Declaration put it, to secure the natural rights of the individual…”

Jefferson’s idea of popular sovereignty, local government and self-government played no part in the State that was set up in 1789.

The U.S. Constitution did not place the principles of Paine and the Declaration concerning government into practice. To the contrary, instead and intentionally, it set up a State, and a State that could become more and more powerful over time.

The Constitutional Convention which was supposed to revise the Articles of Confederation, which did not provide for a State, met in secret and devised a strong central State. Instead of requiring unanimous approval of all 13 states, as it was supposed to, the Convention called for the approval of 9 of the 13.

In this way, a small group more or less suddenly deposed the existing establishment under the Articles and managed to get it replaced with another, the State still in existence to this day, the one that the Constitution calls the “United States of America”.

The “government” set up under this Constitution to do the work of the State, that is, to bring into effect the political means and exercise political power, was not from its birth a government consistent with the Declaration.

“Of all the legislative measures enacted to implement the new constitution, the one best calculated to ensure a rapid and steady progress in the centralization of political power was the Judiciary Act of 1789.”

John Marshall was appointed in order to assure control over law-interpretation and law-making by a small and centralized body so that the exploiters could control the exploited. “Since 1800, therefore, the actual mode of the State in America is normally that of a small and irresponsible oligarchy!”

Between 1781 and 1789, after the Revolutionary War, the 13 provinces became 13 States. Under the Articles of Confederation, “administration of the political means was not centralized in the federation, but in the several units of which the federation was composed. The federal assembly, or congress, was hardly more than a deliberative body of delegates appointed by the autonomous units. It had no taxing-power, and no coercive power. It could not command funds for any enterprise common to the federation, even for war; all it could do was to apportion the sum needed, in the hope that each unit would meet its quota. There was no coercive federal authority over these matters, or over any matters; the sovereignty of each of the thirteen federated units was complete.”

Within each State, a scramble for the political means began, the objective being to rob the consumer. There
was an “insensate scuffle for State-created economic advantage…”

“All that interests us is to observe that during the eight years of federation, the principles of government set forth by Paine and by the Declaration continued in utter abeyance. Not only did the philosophy of natural rights and popular sovereignty remain as completely out of consideration as when Mr. Jefferson first lamented its disappearance, but the idea of government as a social institution based on this philosophy was likewise unconsidered. No one thought of a political organization as instituted ‘to secure these rights’ by processes of purely negative intervention – instituted, that is, with no other end in view than the maintenance of ‘freedom and security.’ The history of the eight-year period of federation shows no trace whatever of any idea of political organization other than the State-idea.”

I end the summary here.

The picture presented by Nock runs something like this. To whatever extent the American Revolution stood for rights, a government that protected these rights and consent of the governed, these did not result from the Revolution. Americans had been used to the notion of the merchant-State prior to the Revolution, indeed from the earliest colonial times. A small clique of men who were themselves often merchants and engaged in land speculation brought about a central State in 1789, along the lines of what had been the practice up to 1781 and also between 1781 and 1789. They did so by a coup.

The Constitution made some concessions in the Bill of Rights to gain acceptance. However, the groundwork had been laid for a State. A State is the organization of the political means, that is, an unproductive system by which one class, usually a minority, has the power and means to exploit other classes, usually in the majority.

Going back to the Constitution is a non-starter for anyone who is serious about such ideas as self-rule, self-government, the protection of rights, consent of the governed, voluntarism, local democracy, libertarian law, a watchman government, popular sovereignty or other such related ideas that eschew the State. The Constitution sets up a State. The Constitution has many provisions that work toward the centralization and augmentation of State power, in opposition to rights, liberty and social power.

Americans cannot possibly go back to the original Constitution, nor should they even consider doing so.

Going back is out of the question because the Constitution was never devised in the first place to promote rights and self-rule. It promoted oligarchic rule.

One may seek out ideas from the past that eschew the State and promote rights, but the only ways to proceed are toward their implementation and into the future. This requires, among other things, to see clearly what our history has been, to stop glorifying the State and political means, to see the State history of violent exploitation for what it is, and to stop listening to the ministers and propagandists of the State. And, along with Nock, we need to see clearly that the Constitution cannot be regarded as a document to guide us politically if we want progress.

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Insuring Deposits, Ensuring Insolvency

by Frank Hollenbeck on July 24, 2013

The US government is trying to implement the 21st century version of the Glass-Steagall Act of 1933. The proposed bill would separate traditional banks (which are backed by the FDIC) from riskier financial institutions that include companies focused on investment banking, private equity and more. This is to give the impression that governments are taking
actions against the financial sector whose actions nearly brought the entire world economy to its knees back in 2008. The implicit assumption is: if this legislation is passed, the banking sector will never again be a source of financial panics. Nothing could be further from the truth.

First, the housing bubble would still have existed without investment banking. The liar loans and no-money-down loans were all commercial banking activities. If these mortgage loans had never existed, investment banks could not have repackaged and sold then to mutual and pension funds, and insurance companies. By setting rates too low for too long, the central bank created an environment for bubbles. Glass-Steagall would have been a bump in the road. If a child goes into a candy store and “pigs out”, do you blame the child (the bankers), or the parents (the central bank) for putting him in the candy store in the first place?

Second, the US experienced several severe financial crises during the 19th century: the panics of 1819, 1837, 1857, 1873, 1893 among others. At the time, most investment banking activities did not even exist. The banking sector’s ability to create money out of thin air allowed the excessive credit growth, unjustified by the resources liberated by real savings, which spurred economic activity during the boom phase of the business cycle. This growth could not have occurred without fractional reserve banking. End that, and you end most boom and bust cycles.

The Glass-Steagall act was completely repealed in 1999 with the Gramm-Leach-Bliley act, allowing commercial banks to easily enter investment banking activities. In other words, fractional reserve banking and deposit insurance allowed banks to take on risky gambles, and now they were being allowed to engage in even riskier gambles. The recent legislation such as Dodd-Frank, the Vickers report in the UK and the liikanen report in Continental Europe all try to limit commercial bank activity into investment banking. The essential idea behind some of these new rules is each gamble would be assigned a risk weighting. A commercial bank could then only take on so many bets before being required to split off these risky activities into a separate entity.

No one, of course, is asking the critical question: why are banks allowed to take these risky gambles with deposits in the first place? They shouldn’t be.

Deposit insurance is one of the two factors which allows banks to take such risky gambles. Created in 1933, it is a perfect example of government policy that ultimately will be determined to have done more harm than good. It was supposed to reduce risks, but has done just the opposite. When governments provide flood insurance the private sector would never consider, people then build homes in areas prone to suffer from severe flooding.

Prior to deposit insurance, people were careful about where they deposited their money to pay rent or food bills. If a bank ran into trouble by undertaking poor lending practices, people would quickly try to pull their money out of the bank. Bank runs were a good thing because runs served to force banks to be extremely careful about their lending practices. The threat of a bank run maintained sound incentives.

Deposit insurance is a perfect example of Frederick Bastiat’s parable of the broken window: what is seen, and what is not seen. For about 70 years, bank runs have been eliminated; giving depositors what some would say is the illusion of protection. That is what is seen. What is not seen is, without insurance, banks would have been taking much less risks with deposits, and governments would have been less able to finance spending through bank purchases of their bonds.

Europe, today, is a perfect example of the disastrous effects of deposit insurance. Had it not existed, the 2008 crisis might have never occurred, or been much milder or occurred much earlier, and the debt situation of governments worldwide would be completely different. It is surprising how many free market economists defend deposit insurance although it is a product that the free market, prior to 1933, never considered worth undertaking.

Why was Ireland forced to bail out its banks? Why don’t governments treat banks like any other business? If Nokia was unable to sell phones competitively, it
should go bankrupt. The government should not be bailing out private businesses. Again, it is the fault of deposit insurance. Although a bank may no longer exist, the government is still liable for the banks’ liabilities, its deposits, because of deposit insurance.

Today, many Italian or Spanish banks have used deposits to buy large percentages of their government’s debt. If either Spain or Italy is closed out of the financial markets, which is getting more and more likely, the value of their debt will drop significantly as Greek debt did back in 2010. These banks will go bankrupt instantly, and the Italian or Spanish governments will be on the hook for the deposits that served as funds to purchase their bonds since these deposits are insured!

These governments will then have to print their way out of the problem. However, this would go against the ECB’s mandate and would probably face a German veto. A breakup of the Euro would then be inevitable. An official rate would then be set between Euros and liras or pesetas. This rate, however, would have nothing to do with the market rate. Depositors holding less than 100,000 euros would get their money back in liras or pesetas. However, this new currency would not be able to buy much. Deposit insurance guarantees the nominal value of deposits, not its real value: hence, the illusion of protection.

The economic consequences of the hyperinflation inevitable in Spain or Italy will have worldwide repercussion. None of this would have happened without fractional reserve banking. Deposit insurance would then have been unnecessary.

We need to end this constant race between banks and regulators. We already have more compliance officers than loan officers. All this new banking legislation will probably make the situation even worse. Banks will always be able to use new technologies and new financial instruments to stay one step ahead of the regulators. We continue to put bandages on a system that is rotten to the core. Banking in its current form is not capitalism. It is fraud and crony capitalism, kept afloat by ever-more desperate government interventions. It should be dismantled.

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Don't Fall for “Free”
by Loyd S. Pettegrew

The Opportunity Costs of “Free”
P.J. O’Rourke once quipped, “If you think health care is expensive now, wait until you see what it costs when it’s free.” The truth behind O’Rourke’s humor is the opportunity cost of “political free.”

Even relatively bright people who have never studied economics realize that behind the government’s redistribution of wealth are huge opportunity costs both for citizens who actually pay for the government’s giveaways and for the people who receive them.

Resources are scarce and something can only be free if there is no opportunity to have or do anything else (Lee, 1999). When a poor person decides to have children and take welfare, this person narrows or even eliminates his/her opportunity to do something more productive like working, improving him/herself, getting away from the despair and dependence that comes with the government running his/her life.

One of this article’s authors had the opportunity to sit in a local Social Security office to correct a wrong birth date in the Social Security records. This necessitated waiting in a room full of entitlement recipients who were there for their monthly government check. It was fascinating and sad to see how miserable these people were as they waited to get a check for living expenses from the government. They resented being there, having to wait for and deal with the indifference of Social Security employees. Once the check was cashed, the relief and joy would last only until the money was gone. We doubt the government, and certainly not the welfare recipients, factored this wasted time and personal humiliation as the opportunity costs of being financially rescued by the federal government.

Government riding to the rescue of people unable/unwilling to take care of themselves is fraught with paradox. The term “rescuing” comes from the
therapeutic literature where a therapist rescues a patient who is in trouble (see Watzlawick, Weakland & Fisch, 1975). A new problem often arises because the person being rescued resents the fact that the rescuer has it together enough to be able to help them and the rescuer resents the fact that the person(s) he has rescued doesn’t appreciate his/her help.

**An Economic View of Political Free**

Like lemmings to the sea, the Western world has responded to political promises of free things, both from their governments and from business in unprecedented ways. We spent several months traveling around Europe during the past two summers and when we quizzed people about how they liked their health care system the vast majority replied: “Well … it’s free!” But is it really? Most Europeans work until at least July for their governments and in Scandinavia personal income tax, payroll, and VAT taxes hover in the 80 percent range. Europeans also freely admitted that the wealthy in their countries who have cancer or heart illness frequently travel to the U.S. to pay for and receive lifesaving treatment.

Mises (1990, p. 51) warned us about the “ineradicable scarcity of time as well as resources” and cautions us to act wisely in the choices we make. The use of “free” is fundamentally a rhetorical trick that has been used by dictators, despots, and unscrupulous marketers for many, many centuries. In Predictably Irrational, Dan Ariely (2008, p. 55) warns us about the high price of zero cost, pointing out that free is an emotional hot button—a source of irrational excitement, but seldom free. In a September 24, 2012 front page Wall Street Journal story by Robin Sidel titled “‘Free’ Checking Costs More” the author reports that banking customers flock to banks to get their “free” checking account, then are shocked to learn that their free account requires hundreds of dollars to be deposited and remain in the bank in a non-interest-earning account.

Free is also a key component of the populist rhetorical arsenal and not just from the Hugo Chavez’s of the world. Political progressives on both sides of the aisle in American politics continue to use “free” to gain advantage with voters. Interestingly, the Federal Trade Commission publishes a guide §251.1 warning consumers of the use of the word “free” in selling things (http://ftc.gov/bcp/guides/free.htm).

“(2) Because the purchasing public continually searches for the best buy, and regards the offer of ‘Free’ merchandise or service to be a special bargain, all such offers must be made with extreme care so as to avoid any possibility that consumers will be misled or deceived.”[1]

We assume this regulation would put former Speaker of the House, Nancy Pelosi, at odds with the FTC when, after the Supreme Court upheld the individual mandate part of the Universal Health Care Bill, she urged young people, particularly the artistic types, to quit their jobs and pursue their passions because their health care would be free from now on. Governments around the world have offered free benefits to its citizens for centuries, something that Greece has honed to a new social science.

**The Origins of Free**

Aristotle in his Politics believed that human existence is inherently political and set forth the idea that books should be free. But since all resources are scarce, the offer of free goods or services, especially from the government, should sound an alarm. Mises (1944, p. 84) warned us that governments pretend to have mystical powers “to accord favors out of an inexhaustible horn of plenty. It is both omniscient and omnipotent. It can be a magic wand creating happiness and abundance. The truth is that the government cannot give if the government does not take from somebody. A subsidy [benefit] is never paid by the government out of its own funds; it is at the expense of the taxpayer …”

We must understand that the allure of “free” to both rule makers and those to whom it chooses to give benefits, takes away the good sense of both sets of people. When states or nations transfer benefits to their citizens for free as the Soviet Union did until several decades ago and both Greece and the United States are doing now (Eberstadt, 2013, p. A13), they eventually collapse under the weight of their own
Sowell (2009) warns us that all government benefits have real costs, and the only question is to whom? He ties the recent housing boom and bust directly to Congress’s desire to guarantee mortgages to people who wanted to own a home, but who couldn’t qualify or pay for home mortgages they could afford. These so-called beneficiaries of government wisdom and largess lost everything when the market turned sour as did many lenders.

The financial devastation in this country has been greater than anything since the Great Depression. The Wall Street Journal (July 13, 2012, p. A10) opined that with the crushing effects of the real estate bust still being felt across the U.S., the federal government is now pressuring banks like Wells Fargo to ensure there are no disparate lending outcomes for Blacks or Hispanics, when compared to a statistical model of what the government estimates should have occurred with minority borrowers. Smaller banks that aren’t too big to fail are responding by stopping their mortgage lending to almost everyone.

Lest we be accused of placing the sole responsibility for giving economic benefits to special interests at the feet of Democrats, Sowell (2006, p. 106) also points to the fact that President George W. Bush placed tariffs on foreign steel in 2002 (to gain support from voters in Pennsylvania and West Virginia) and this had a direct dislocation for thousands of small and medium-sized businesses who use steel and had to pay for the rise in prices caused by the tariff. Many said it was the equivalent of fuel hikes for the airlines.

The $64,000, if not the $4 trillion question is why seemingly intelligent people buy political promises of free stuff at face value from both sides of the political system in America? The cynical answer is that 90 percent of American’s must be ignorant. A more informed explanation lies deeper. To answer this question we delve briefly into two branches of science: Neurophysiology and Behavioral Economics. These disciplines show us how the human brain is wired and how the economic pricing slight-of-hand can turn even very smart people into the great economic unwashed.

**Neuroscience**

Homo sapiens have a bi-lateralized brain that gives us the ability to engage in some pretty outrageous mental gymnastics. For most people, the left side of the brain tends to be the analytic processing center, and controls the functions of logic, language (grammar, vocabulary, and literal meanings), science, and math (Dehaene, Spelke, Pinel, Stanescu & Tsivkin, 1999). The right side of the brain is the creative processing center for most people that controls passion, metaphorical language, artistic and musical abilities, intuition and gestalt (Hines, 1987).

The populist politician is able, through language and sophistry, to appeal to both sides of the brain in such a way where many people feel no disconnect between free and health care, housing, school lunches, education, or cell phones.[2] This happens in much the same way that skillful marketers convince intelligent people to believe that a product is free or can be returned at no cost. At times both politics and marketing are indistinguishable in creating and fulfilling human need.

Through the use of cleverly constructed appeals (attributed to sophists by the ancient Greeks), man’s left-brained skeptical nature (that nothing is really free) can be short-circuited. He is left believing that because it is so necessary/humane/just/moral (pick one or more), things must really be free. This rhetorical slight-of-hand was first introduced by Aristotle and is called identification. It plays to our right brain and lowers the processing of our left brain. It is also the foundation of Neurolinguistic Programming that uses people’s language and behavior to put them in a low-level hypnotic state, overcoming their resistance to the other person (Rossi, Erickson-Klein & Rossi, 2008).

This is precisely how so many people respond to television and Internet ad promises like “Our free offer is available to everyone and will make you stronger, healthier, happier, thinner, more comfortable, more curvaceous, etc.” To lower the left brain’s resistance to the message’s impossibility, the marketer/politician invokes opposition, the suggestion that
“our competitors, or the other party, don’t want you to have strength, health, happiness, svelteness, sexiness, comfort, etc., because they don’t care about you like we do, or they are simply deceiving you.”

Behavioral Economics and other Research

There has been more than a decade of research on “free” things in the behavioral economics literature led by Dan Ariely and his colleagues.[3] (Editor’s Note: “Behavioral economics” is misnamed, as it is actually a branch of psychology, and not true economics, as defined by Mises; but its findings are interesting nonetheless.) Experiments were conducted on smart people (students from MIT, UC Berkeley, and Duke) testing the unique power of “free stuff.” The study that makes our point most succinctly involves a test on students at a MIT cafeteria who were buying food. The first test was an offer at the cash register to buy a Hershey’s Kiss for 1¢, a Lindt truffle for 14¢, or neither. This first trial saw 30 percent of the students buy the Lindt truffle at 14¢, 8 percent bought the Hershey’s kiss for 1¢, and 62 percent bought nothing. After a 30-minute break and presumably a new crowd of students, the researchers then dropped the price of each candy by 1¢, a monotonic transformation of the prices. The Hershey’s Kiss was now 0¢ and the Lindt truffle was 13¢. This time 31 percent of the students took the Hershey’s kiss at 0¢, only 13 percent bought the Lindt truffle at 13¢, and 56 percent bought nothing. The allure of a “free” Hershey’s Kiss made bright students buy significantly fewer Lindt truffles and chose significantly more Kisses.

The authors conclude: “... zero price has a special role in consumers’ cost-benefit analysis. ... Not surprisingly, when the cost is zero, many more students take candy than when the price is positive” (Shampanier, et. al, 2007, pp. 749-750).

There appears to be cognitive magic in things that are offered for “free.” As Mises and the concept of opportunity cost reminds us, free is not really free and costs are often spread to others who may not even be interested in the free offer. Kinsella (2005) discusses how the idea of “free” in patent law can alter the elements in the transaction, making patent benefits actually become costs. While registering a patent is a relatively de-minimus legal cost, defending the exclusive patent rights may be cost prohibitive for any but the largest corporations. Salerno (2012) reminds us that in the early 70s there was a group of new age libertarians who believed that the “Information Age” presaged a world without scarcity. Like patents, Salerno argues there are also no free information clouds; it takes huge physical space, energy, and expertise to run the World Wide Web, YouTube, Dropbox and all of the information platforms people take for granted.

We can see from this why political populists make such a lasting impression. Going back to Ariely (2008) points to the fact that by our very nature, mankind is wired to compare. Certainly free health care sounds like a much more attractive deal than finding a job and purchasing medical insurance, particularly when you don’t have to pay any taxes. Welfare and disability compare favorably to working a full-time job, or even looking seriously for one.

Ariely (2008, pp. 4-19) discusses the sleight-of-hand trick of using a “decoy” to make your alternative appear relatively superior. An example of this trick has been used by Democrats (though Republicans are just as good at it) in the response they have given to Paul Ryan’s desire to reform Social Security and Medicare. The former head of the Government Accountability Office, David Walker, a Democrat, has been giving presentations to Americans since 2007. He says, and he should know, that both Social Security and Medicare/Medicaid are broke and the Federal Reserve simply prints more money to prop them up. Despite this and a 20/20 news segment on Walker, Democrats are screaming that Paul Ryan wants to take away Social Security and Medicare by reforming it. Given that alternative, who among the tens of millions of Americans on or about to be on Social Security wouldn’t think the status quo, no matter what David Walker says, is a superior alternative?

Conclusion

The bottom line in America is that if you want people to adopt your political ideas and vote for you,
give them free stuff. This wasn’t lost on Venezuelan dictator Hugo Chavez recently when he won a relatively close reelection after giving away free housing and appliances (Luhrn & De Cordoba, 2012). Politicians of both persuasions use free benefits to build their constituencies and then extend the free benefits to an even wider group. As long as those benefits are for the seemingly disadvantaged or needy, the press will give the programs great coverage and the political promoters become public heroes instead of the public pariahs Mises argues they really are.

There is no doubt that we are weaning the American people off ambition, hard work, and entrepreneurship, while creating an entitlement mindset among an increasing number of our citizens. We do it under the allure of free things and the blanket of social justice which the White House now refers to as “sustainability”—a telling title intentionally creating an even wider identification with the welfare state and lifestyle, while taking us light years away from free markets and free people.

[For more from Pettigrew and Vance on this topic, see "The High Cost of "Free".]

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**PART V, Lesson 39: The Retirement Trap**

**Content: Page 66, Becoming Your Own Banker: The Infinite Banking Concept® Fifth Edition, Sixth Printing**

First of all, I think we must accept the fact that all governments lie to you, and especially your own. How many times has the Internal Revenue Code been changed? As a foundation for this lesson, I suggest that you go back and re-read Part II of this course. It appears to me that all this emphasis on retirement is a Socialist idea that has as its basis the feeling that “we have to get the older folks out of the work force to make room for the younger generation because there aren’t enough jobs to go around.” My word! What drivel! Have they no understanding of creativity? Just think of something like the desktop and laptop computer – there was no such thing thirty years ago.

Yet, this idea of retirement is so prevalent today. Over forty years ago, my mentor, Leonard Read penned these words: “Most Corporations, educational and religious institutions, chambers of commerce, trade associations, and other organizations compel retirement at 65; many make it attractive to retire at 60; and we hear more and more of retiring at 55. The sole criterion is the number of moons that have come and gone; whether the budding process is dead, or at its very peak, is not even considered. As a consequence of this indiscriminate, rule-of-thumb procedure, many of the nation’s best men are put out to pasture.” What mental paralysis!

In 1976 – the so-called Bi-Centennial Year – I penned these words on my birthday and put them into my personal file for posterity.

_Social Security will fall, as have all socialist_
programs since time began. Before it falls, they will attempt to prop it up. The source of funds that they will use is the reserves of private pension plans and other government sanctioned schemes.

Most folks laughed at me, but it was less than a year before the first “trial balloon” went up suggesting that it was a possibility. Of course, it was shot down right away but there has been an accelerating realization that this is going to happen in the not too distant future. Regardless of the facts many will be caught by surprise. Witness the “surprise” by most people, particularly in government circles, that the Soviet Union “collapsed so quickly.” That is not so! It was doomed to failure from the start because it was operating from a faulty premise that government knows how to order the lives of people better than do the people themselves. Social Security will fall for the same reason – a faulty premise!

To explain to skeptics, all the IRS has to do is say, “Look, Doctor, that $40,000 you put into your retirement plan last year was not your money – and you know it! Half of it was taxes that you were going to have to pay had we not granted you this privilege. The other half, we admit, was your money. All we really did was defer your taxation until your retirement time. We were going to get it all back at that time, anyway.

Social Security was created for the common good of our country. So were pension plans for folks like you. It is all the ‘same piece of cloth,’ don’t you see? Now, you have done a great job of putting funds into your retirement plan but Social Security is in trouble. We need ‘our half’ of your contributions now to salvage the system for the common good.” There is not a thing the Doctor can do about it because whatever the IRS created, it can, and will confiscate when an emergency is declared. The will steal your money!!

Everything that enables the Congress to do this is already in place. If you need proof of this, just consider what happened after September 11, 2001. An emergency was declared and just look at how our world has changed since that infamous date. We have unbelievable restrictions and intrusions in our lives and I don’t know of anyone who really feels any safer. Can you imaging a greater emergency than the collapse of Social Security? There is no way to “fix” a faulty premise. It should be abandoned.

If you need further proof, google Executive Order 6102 - Requiring Gold Coin, Gold Bullion and Gold Certificates to Be Delivered to the Government, issued April 5, 1933 and signed by Franklin D. Roosevelt. All they had to do was declare an emergency. You say, “But, can’t they confiscate life insurance cash values?” My response, “Life insurance is not a creature of the government. It has been around for 200 years. The IRS has only been around since 1913 and the tax-qualified plans are their creatures. What’s more, governments always take the course of least resistance and it will be easy for them to get to this money.”

So, I’d like to de-emphasize the concept of retirement and emphasize the term “passive income” used by Robert Kiyoski, author of Rich Dad, Poor Dad. This is income that is coming to you without your doing anything for it. In Part V of this course you will see the ultimate in passive income. It is dividends from whole-life insurance with a mutual company.
For just the Friday afternoon/evening lectures, students pay $35 while others pay $75. (We expect many Nashville residents will want to see Ron Paul.)

*A second package gets the Friday lectures, AND the Friday cocktail reception, the Friday dinner, and the Saturday lunch and workshop, for $650.

However, for IBC Practitioners and those currently enrolled in the Program (but who have not yet taken the final exam), there is a 10% discount code, which you can obtain by emailing Carlos, usatrust@comcast.net which would make your actual price $585.

The Saturday workshop will be ideal for clients who have been introduced to IBC but have lingering doubts, or who want to hear it described from different perspectives. In the first session we will explain the “big picture” of IBC, and then over the course of the day we will walk step by step through its applications to the household and business owner.

We will explain how whole life insurance and policy loans work from an economic and actuarial perspective, we will explain that IBC isn’t tax evasion or some other scheme, we will explain how the growing practice of IBC will minimize the very problem we diagnosed the night before, we will explain the function of the IBC Practitioner’s Program in helping the public locate insurance professionals who are familiar with Nelson’s ideas, we will defuse common objections/myths, and we will field questions from the audience.

The Night of Clarity this year will be held at the downtown Nashville Sheraton. You will need to make your hotel reservations yourself, at the downtown Nashville Sheraton.

Please go to the event website for the pricing packages: http://nightofclarity.com.

Please let us know if you have any questions or concerns. Thank you again for your support in helping us build the ten percent!

Sincerely,
Nelson, David, Carlos and Bob
Nelson’s Live Seminars & Events
for August & September 2013
http://infinitebanking.org/seminars/

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Our comprehensive Becoming Your Own Banker® seminar is organized into a five-part, ten-hour consumer-oriented study of The Infinite Banking Concept® and uses our book Becoming Your Own Banker® as the guide. Typically, Nelson covers the concept’s fundamentals in a two-hour introductory block the first day. He then covers the “how to” over an eight-hour block the final day.

These seminars are sponsored, therefore attendance is dictated by the seminar sponsor. If you are interested in attending one of these events, please call or email the contact person listed with the seminar information.