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THIS MONTH'S FEATURES

WHY DO PEOPLE OBEY THE GOV'T?

BY L. CARLOS LARA

At times it seems a corrupt government is too powerful to resist. But the government only has the power we all give it. Etienne De La Boettie shows the importance of ideas.

WHY DAVE RAMSEY IS WRONG

BY ROBERT P. MURPHY

Dave Ramsey constantly plugs the "buy term, invest the difference" line. Here's what his analysis misses.

ENEMY OF THE WARFARE STATE

INTERVIEW

Dr. Robert Higgs has made a career analyzing how the government expands its powers during economic and military crises. His outlook for America is not good.

IN EVERY ISSUE

DEAR READERS

LARA-MURPHY REPORT

Historically it was capitalism that turned serfs into the middle class. Growing government threatens to interrupt this engine of prosperity and civilization. Education is thus more important than ever.

ECONOMIC DEEP END

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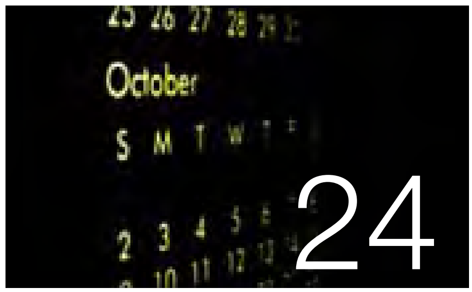

ONE MORE THING

EVENTS AND ENGAGEMENTS

Learn more in person from Lara, Murphy, and other Austrian economists, at these upcoming appearances.

ABOUT LARA & MURPHY

L. Carlos Lara manages a consulting firm specializing in corporate trust services, business consulting and debtor-creditor relations. The firm's primary service is working with companies in financial crisis. Serving business clients nationwide over a period of three decades, these engagements have involved companies in most major industries including, manufacturing, distribution and retail. Lara incorporated his consulting company in 1976 and is headquartered in Nashville, Tennessee.

He married Anne H. Browning in 1970. Together they have three children and five grandchildren.

Dr. Robert P. "Bob" Murphy received his Ph.D. in economics from New York University. After teaching for three years at Hillsdale College, Murphy left academia to work for Arthur Laffer's investment firm. Murphy now runs his own consulting business and maintains an economics blog at ConsultingByRPM.com. He is the author of several economics books for the layperson, including *The Politically Incorrect Guide to the Great Depression and the New Deal* (Regnery, 2009).

Murphy is an adjunct scholar with the Ludwig von Mises Institute. He lives in Nashville, Tennessee with his wife and son.

LMR

L. Carlos Lara
Editor in Chief

Dr. Robert P. Murphy
Executive Editor

Anne B. Lara Managing Editor
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Dear Readers

Dear Readers,

The buying and selling of goods, along with their interlocking activities of production and distribution, occurs every second of every day and in an indecipherable number of times throughout the world. It boggles the mind to contemplate the size and complexity of this awe aspiring mechanism—the market economy.

At the center of this enormous activity is the buying public, but where did it come from? How did this powerful force come to be? What are the origins of the consumer?

Are these not the slaves and serfs of long ago? Were these not at one time the beggars and paupers of history? In fact these same masses of people were literally transformed, not by science and technology, but by the adoption of the free enterprise principle of laissez-faire. They became the buying public. The early entrepreneurs and industrialists came from this very same stock of people except they lived modestly, spent only a fraction of their earnings for their households and plowed the remainder of their savings back into meeting the growing demands of the common man. Together, the businessman and the consumer raised everyone's standard of living to heights never dreamed of in earlier ages.

The market economy, however, is not simply mass production. Within it there is an overpowering tendency to put to work the most efficient means of satisfying the consumer's most urgent needs—thus it is self-regulating. When government extends its power over production whereby it dictates what should be produced, when it should be produced and in what quantity and quality, the government has embarked upon a treacherous path of destroying economic life. At the heart of this form of government policy is only confiscation and distribution.

This is why educating ourselves in Austrian economics is crucially important. It can help us see through this insanity and teaches ways to secede from government's increasingly tyrannical grip. This is exactly how Privatized Banking was formulated. Equally important should be the sharing of this concept with our families, neighbors and business associates. In an age when all of our freedoms are being disregarded and economic doors are being slammed shut, Privatized Banking offers businesses and households a peaceful way of escape.

Yours truly,

Carlos and Bob

"It is the masses that determine the course of history, but its initial movement must start with the individual."

- How Privatized Banking Really Works

PULSE ON THE MARKET

RECENT DEVELOPMENTS THAT MAY BE OF INTEREST TO READERS OF THE LARA-MURPHY REPORT…

QE 3000

FED ANNOUNCES INDEFINITE QE

The big financial news this month of course has been the Fed's announcement of open-ended purchases, dubbed "QE3" by the pundits. Specifically, the Fed announced that in addition to its other programs, it would begin purchasing $40 billion of mortgage-backed securities (MBS) per month, until such time as the Fed thought the economy could stand on its own. There were two subtle changes in this policy, compared to previous ones. First, the Fed's new program is indefinite; they didn't give a total dollar figure for how much they were committing to spend. Second, the Fed said that it would leave the accommodation in place well into the economic recovery. Most analysts (even those who applauded the move) thought this was Bernanke's wink-wink way of telling the markets that the Fed would be OK if price inflation got above the official 2% comfort zone. In other words, Bernanke was trying to gently tell investors—without giving the Ron Paul crowd an explicit sound bite to hammer him with—that they were going to be less vigilant on containing price inflation, that bringing down unemployment was now more important.

We could devote a whole issue to this, but briefly: This is simply a disaster. The Fed is literally trying to print its way out of a recession. This is *exactly* what Greenspan did after the dot-com crash, and we all know how well *that* turned out. What is particularly disastrous about this latest announcement is the choice of MBS as the asset class. Not only is this an attempt to reflate the housing sector—the cause of the last crash—but it represents a major shift in standard central bank policy. For good or ill, central banks typically bought government securities. Now we have the precedent of a small group of unaccountable officials who are able to create tens of billions of dollars *per month* and buy unwanted assets from people in the private sector. This is an extraordinary amount of power at the disposal of Fed officials, without even the ultimate check of being able to vote them out at the next election.

Police State

US EXPORTING RULE OF LAW TO AFGHANISTAN?

Some readers may be surprised at the sentiments in this month's interview with Bob Higgs, who has given up hope for the United States. We (Lara and Murphy) plan on sticking around, to either save or go down with the ship. But Higgs' position is not as farfetched as it may first sound: A September 20 article in the New York Times, "Progress Seen in Resolving U.S.-Afghan Dispute Over Detainees," is downright chilling. It explains that there was a snafu in the ongoing process of outsourcing U.S. counterterrorism activities to the Afghans, because the Afghan Constitution and legal system don't allow their government to simply hold prisoners indefinitely, without at least charging them with a crime, let alone convicting them of it. Since that's exactly what the U.S. government is currently doing with many prisoners it claims are terrorists—in some cases, holding them for years without even charging them with a crime or providing actual evidence of their wrongdoing—this presented a problem. We understand our readers have differing views on how best to protect Americans from further terrorist attacks, but surely we can all agree that it is a bad sign when prisoners in *Afghanistan* have more legal protections from their government than in the United States.

PULSE ON THE MARKET

RECENT DEVELOPMENTS THAT MAY BE OF INTEREST TO READERS OF THE LARA-MURPHY REPORT…

US Losing Ground

US DOWNGRADED TO 18TH ON ECONOMIC FREEDOM INDEX

For years, the Fraser Institute—a free-market think tank in Canada—has published a ranking of the world's countries based on economic freedom. Back in 2000, the U.S. ranked #2. By last year, it had fallen to #10. And this year (the 2012 ranking), it fell a whopping eight spots to #18. Things are not looking very bright in the short run, but Carlos explains in his article this month why we must not give up.

Fisher Fretting

DALLAS FED PREZ WORRIED ABOUT INFLATION

Not everybody at the Fed is nuts. Dallas Federal Reserve President Richard Fisher has publicly warned that QE3 is raising (price) inflation expectations, and that policymakers need to tread very carefully; once the genie gets out of the bottle, it will be hard to put it back in, as the late 1970s showed.

A standard measure of "the market's" expectation of future price inflation is to look at the spread between regular Treasury securities and TIPS (Treasury Inflation Protected Securities) of the same maturity. Since TIPS bonds have a built-in adjustment for rising prices—where the principal on the bond is adjusted upward with changes in official CPI—the yield on TIPS are supposed to represent the "real interest rate" on very safe assets, whereas the regular Treasury yield on a bond of the same maturity is supposed to represent both the real interest rate and the required inflation premium. Hence, taking the nominal minus the TIPS yield, gives a back-of-the-envelope estimate of what bond traders think future CPI hikes will be. (There are all sorts of technical caveats but we don't want to induce a coma in our readers.)

By this metric, QE3 has caused expected price inflation to surge. The estimate for inflation over the next five years went from about 1.9% in early September, to 2.4% right after the QE3 announcement. (It then fell back down to about 2.2%.) We still think these estimates in an *absolute* sense are off—we expect price inflation to be more severe in the coming years. But just as a relative measure, it shows that everybody recognizes that printing more money out of thin air causes the dollar to sink in value.

Krugman Sweating

MORE OUTLETS PICK UP THE KRUGMAN DEBATE

Finally, a shameless plug: One of us (Murphy) has a long-standing debate challenge to arch-Keynesian Paul Krugman. The trick is, people who want to see the debate can make a pledge (which isn't charged to your credit card unless the debate actually happens) to a third-party site, the proceeds of which go to a food bank in NYC. Recently blog posts at FreedomWorks and then Breitbart picked up the story, in which there is currently some $73,000 that would go to the food bank, if only Krugman would debate Murphy. Alas, Krugman has publicly said he will not give a platform to Austrians wanting to make economic policy into a circus. Full details at KrugmanDebate.com.

Why Dave Ramsey Is Wrong About Whole Life Insurance

by Robert P. Murphy

Author's Note: This article is adapted from a section in the newly-released Report on whole life insurance for business owners that Carlos Lara and I prepared for Mark Benson of SBO Wealth (mbenson@ameritime.net) and John Moriarty of E3 Consultants Group (jmoriarty@e3wealth.com).

Radio talk show host

Dave Ramsey has made a national name for himself guiding people out of debt. I occasionally listen to his show (Ramsey and I both live in Nashville), and I applaud much of what he tells his listeners. In particular, Ramsey stresses the importance of having a specific budget and communicating with one's spouse about money. Furthermore, as a Christian, I also like that Ramsey ends each show by saying that ultimately, the only path to financial peace is to walk with the Prince of Peace. (Funny tidbit: I discovered months after attending that Ramsey and I actually went to the same church!)

Unfortunately, as many readers of the *Lara-Murphy Report* know all too well, Dave Ramsey really has it out for whole life insurance. It's not merely that he prefers term life. No, Ramsey is quite adamant that anybody buying a whole life policy is a fool, and anybody selling it to him is either a liar or an idiot. In this article I want to explain why Ramsey quite simply doesn't know what he's talking about, when he criticizes whole life.

Ramsey's Case Against Cash Value Insurance, Including Whole Life

To do Mr. Ramsey justice, let's quote extensively from a post from his website entitled, "The Truth About Life Insurance":[1]

Myth: Cash value life insurance, like whole life, will help me retire wealthy.
Truth: Cash value life insurance is one of the worst financial products available.

Sadly, over 70% of the life insurance policies sold today are cash value policies. **A cash value policy is an insurance product that packages insurance and savings together.** *Do not invest money in life insurance; the returns are horrible.* Your insurance person will show you wonderful projections, but none of these policies perform as projected.

Example of Cash Value
If a 30-year-old man has $100 per month to spend on life insurance and shops the top five cash value companies, he will find he can purchase an average of $125,000 in insurance for his family. The pitch is to get a policy that will build up savings for retirement, which is what a cash value policy does. However, if this same guy purchases 20-year-level term insurance with coverage of $125,000, the cost will be **only $7 per month**, not $100.

WOW! If he goes with the cash value option, the other $93 per month should be in savings, right? Well, not really; you see, there are expenses.

Expenses? How much?

All of the $93 per month disappears in commissions and expenses for the first three years. After that, the return will average 2.6% per year for whole life, 4.2% for universal life, and 7.4% for the new-and-improved variable life policy that includes mutual funds, according to *Consumer Federation of*

Ramsey is quite adamant that anybody buying a whole life policy is a fool, and anybody selling it to him is either a liar or an idiot.

> *America, Kiplinger's Personal Finance* and *Fortune* magazines. The same mutual funds outside of the policy average 12%.
>
> The Hidden Catch
> Worse yet, with whole life and universal life, the savings you finally build up after being ripped off for years don't go to your family upon your death. **The only benefit paid to your family is the face value of the policy,** the $125,000 in our example.
>
> The truth is that you would be better off to get the $7 term policy and…put the extra $93 in a cookie jar! At least after three years you would have $3,000, and when you died your family would get your savings.
>
> A Better Plan
> If you follow my Total Money Makeover plan, you will begin investing well. Then, when you are 57 years old and the kids are grown and gone, the house is paid for, and you have $700,000 in mutual funds, **you'll become self-insured.** That means when your 20-year term is up, you shouldn't need life insurance at all—because with no kids to feed, no house payment and $700,000, your spouse will just have to suffer through if you die without insurance.
>
> Don't do cash value insurance! **Buy term and invest the difference.** [Bold and italics in original.]

To repeat, I am glad that Dave Ramsey is out there on the airwaves, giving his listeners a kick in the pants to get serious about their financial situations, start earning more income, and paying off credit cards. However, I can't beat around the bush when it comes to life insurance: Ramsey's perspective—as illustrated not just in the above excerpt but whenever he discusses the issue on his popular radio show—is based on ignorance. Ramsey's claims that I've quoted above are entirely misleading, and do not even begin to properly compare a whole life policy with other financial vehicles.

The fundamental problem with Ramsey's analysis is that he doesn't treat interest rates properly. When he compares the "return" on permanent life insurance products (such as whole life, universal life, and variable life) with a standard mutual fund that he says will average 12%, he makes two main mistakes. The first problem is that Ramsey grossly exaggerates how real-world mutual funds have behaved. The second problem is that he doesn't realize the correct way to account for a "rate of return" on an insurance policy. If investors want to see the rate of return in insurance versus other financial instruments, such a calculation can be done; I'll sketch the outline below. But my point is that Dave Ramsey's glib discussion above doesn't even set the comparison up correctly.

Ramsey's First Problem: 12% Returns on Mutual Funds?!

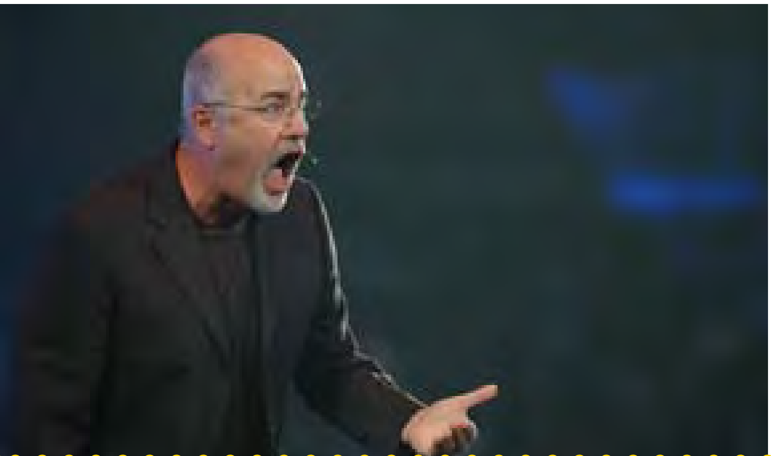
Regarding the first problem, Ramsey's figure of 12% returns on a mutual fund is an unfair benchmark to hold against a whole life policy. Ramsey doesn't specify exactly what kind of mutual fund he is considering, but for returns that high they must be heavily equity-based. Now Ramsey's discussion of whole versus term insurance was posted at his website in October 25, 2010. At that point, the S&P 500 stood at 1198.35. Exactly 20 years earlier, it stood at 312.60. That works out to only *7 percent* annualized growth, not the 12 percent Ramsey cited. Now it's true, looking merely at movements in the level of the S&P doesn't capture dividend earnings, but our calculation also doesn't include a mutual fund's fees or tax considerations. We're just trying to get a rough ballpark of whether the claims of mutual fund performance really hold up, when the gurus tout "buy term and invest the difference" as a no-brainer.

> **The fundamental problem with Ramsey's analysis is that he doesn't treat interest rates properly.**

There's another major problem with Ramsey's figure for mutual funds—it ignores the two *crashes* they experienced during the last 20-year window.

This is something that *does not happen* with a whole life policy, where the cash value can *never* go down, per the contract. To see how this is relevant, suppose someone had bought into the stock market only 15 years before Ramsey's post, i.e. in October 1995. The S&P's annualized return over this 15-year period was a hair under 5 percent, a far cry from the 12 percent figure Ramsey cited. And of course, if someone had had the misfortune of "buying term, and investing the difference" in an equity-based mutual fund in the years 1999 or 2000, then his retirement savings would be reeling from the fact that the stock market is currently lower than when he bought in, even though more than a *decade* has passed.

If you look at a graph of the stock market over a 20- or 30-year stretch, you will see that a major reason that the "rate of return" on a typical whole life policy can be relatively lower than returns on other financial products is that whole life is very conservative. In other words, there is less risk in a whole life policy.



The cash value in a whole policy can never go down from one year to the next, and it has a built-in (admittedly very conservative) guaranteed growth rate. Do Dave Ramsey's mutual funds give the same deal, on top of their alleged 12% annual rates of return?

The cash value in a whole policy can never go down from one year to the next, and it has a built-in (admittedly very conservative) guaranteed growth rate. Do Dave Ramsey's mutual funds give the same deal, on top of their alleged 12% annual rates of return?

Ramsey's Second Problem: Ignoring Value of Life Insurance Coverage When Calculating "Internal Rate of Return"

Now let's move on to the subtler problem: Ramsey's handling of the "return" on whole life insurance policies. What he has in mind is the *internal rate of return (IRR) as computed by the surrender cash values in relation to the gross premium payments.* The issue is not so much whether Ramsey's choice of 2.6% is fair or not—many insurance agents can show ways of designing whole life policies with far better results—especially in light of his very generous figure of 12% for mutual funds. Rather, the problem here is that Ramsey's 2.6% figure is *meaningless* when trying to compare a whole life policy to a non-insurance financial product, such as a mutual fund.

First let's see exactly what people (like Ramsey) have in mind when computing the "return" on a whole life policy. They are looking at the surrender cash value available for an insurance policy at various years into the policy, and computing what the average, annualized, compounded interest rate would have to be on the *premium payments* in order to cause a savings account balance to have that same value, that many years into the plan. In other words, when people talk about the "internal rate of return" on whole life, they are asking what the constant percentage return on a savings account would need to be, if instead of paying your premiums on your whole life policy, instead you took that same cash flow and contributed it into your savings account, so that at the end of 3 years, 5 years, 10 years, etc., the savings account balance was exactly the same level as your cash value in your whole life policy. Using this approach typically shows abysmal numbers for whole life early on, but then they get decent several decades into the policy.

There is a huge problem with this approach: These calculations of internal rate of return (IRR) are virtually meaningless, because *they overlook the insurance dimension of the policy.* Inasmuch as we are talking about a life insurance policy, this seems to be an important omission!

To see why this is important, suppose the policyholder dies in the first year after taking out his whole life policy. Maybe he's put in (say) $12,000, and within the first year his beneficiary gets a check for (say) $1 million. That is an annual rate of return of more than 10,000%. Not too many mutual funds offer such returns.

benefit. A huge reason for the higher premium on whole life versus 20-year term is that a whole life policy *is perpetually renewable*. If, say, a 45-year old man buys a whole life policy with a $1 million death benefit that matures at age 120, then to mimic that Dave Ramsey would need to look up the premium for a *75-year* term policy, not a 20-year term policy. Such a thing doesn't even exist, and if it did, there wouldn't be much left of a "difference" between the two premiums to invest in a mutual fund.

To correctly analyze the year-to-year rates of return on the two strategies, we need to correctly assess the "market value" of life insurance coverage. Obviously it would be wrong to say that a 45-year-old man with a $1 million death benefit whole life policy has "$1 million worth" of life insurance, if we

These calculations of internal rate of return (IRR) are virtually meaningless, because they overlook the insurance dimension of the policy. Inasmuch as we are talking about a life insurance policy, this seems to be an important omission!

are comparing it to holdings of bonds or other financial assets. This is because the 45-year-old probably *won't* die that year, meaning he probably won't see a dime from the insurance company. However, there is a small chance—0.46%, according to the 1980 CSO Mortality Table—that he *will* die that year, in which case his beneficiary receives $1 million.

The sensible way to appraise the death coverage is to multiply the two values, i.e. take the $1 million death benefit times the likelihood of death, which yields a value of $4,600. *That* is the actuarially fair market value of our hypothetical man's $1 million life insurance coverage (whether whole life or term), during his 45th year. (In reality it's actually less than that, since the 1980 CSO Mortality Table is pessi-

Correctly Calculating Rates of Return on Whole Life Versus Other Financial Products

Now to be fair, Ramsey thought he was comparing apples to apples, by stipulating that someone *buy a term policy with the same death benefit,* rather than buying a whole life policy. Since the term policy's premiums are so much lower, Ramsey was merely recommending "investing the difference"—i.e. the savings because of the cheaper premium—into a mutual fund.

But this still isn't right; it's not true that we're holding "the total insurance component" constant, by having one strategy buy whole life, and the other taking out a 20-year term policy with the same death mistic. But I'm just making a theoretical point here, about how you'd go about correctly calculating the rate of return on someone's total wealth, who holds a life insurance policy.)

Insurance Company Keeps the Cash Value When I Die?!

Before continuing, there is one wrinkle: As Ramsey pointed out, a whole life policy's cash value is wrapped into the death benefit. In other words, if the insured dies, the insurance company just sends a check for the death benefit. This makes perfect sense, if we return to the home mortgage analogy: When making monthly mortgage payments, the homeowner gains equity by knocking down the remaining principal on the loan. When the mortgage is finally cleared, the homeowner receives the deed free and clear from the bank. He wouldn't expect the bank to then give him "all of my equity in the house" *on top* of the deed! That would obviously be misconstruing what "equity in the house" means.

The same holds for the cash value on an insurance policy. It reflects the present discounted market value of the expected death benefit and future premium payments. As time passes, this calculated value increases. But if the insured should suddenly die, then those projections are collapsed into the immediate payment of $1 million. The rising cash value was merely the (actuarially discounted) *anticipation* of the eventual $1 million payment, offset by the necessary premium outflows to keep the policy in force. The cash value isn't something laid *on top* of the death benefit.

So although there is nothing sinister or duplicitous in the insurance company's behavior, Ramsey is correct that with the strategy of "buy term and invest the difference," in the case of death the $1 million benefit check *supplements* the mutual fund's value at that point. The way we can handle this complication is to reduce the effective market value of the whole life policy's death coverage. Specifically, we can say that in any given year, rather than the whole life policy offering coverage of $1 million, it *really* only offers $1 million minus the policy's cash value at that time. In other words, the term policy—while it's in force—offers the full $1 million in pure coverage, whereas the whole life policy only offers

The insurance company will only send his beneficiary a check for $1 million, making him "lose" the $50,000 in accumulated cash value.

the Net Amount at Risk in coverage in any given year, on top of the cash value at that point.

For a specific example, suppose Hank is a 45-year old with a $1 million whole life policy with a cash value of $50,000, while his twin brother Tim has a $1 million term policy with $50,000 in a mutual fund. If we wanted to value the death coverage itself, we could say that Tim holds assets of ($1 million x 0.46%) + $50,000 = $4,600 + $50,000 = $54,600. But Hank, with his whole life policy, using this approach would only have ($950,000 x 0.46%) + $50,000 = $4,370 + $50,000 = $54,370. Hank gets "dinged" by $230 because if he happens to die that year, the insurance company will only send his beneficiary a check for $1 million, making him "lose" the $50,000 in accumulated cash value. In contrast, Tim's beneficiary will get the full $1 million death benefit, plus the $50,000 mutual fund balance.

A knowledgeable financial advisor should be able to construct a proper accounting of "rates of returns" broken down by year, for a man using whole life versus an identical man "buying term and investing the difference." Depending on the particular insurance quotes used, the results will make the two approaches far more comparable than the usual tables show—in which whole life gets blown out of the water.

A particularly interesting feature is that in year 21 of the two strategies, the correctly calculated "total rate of return" for the man using term insurance will be very low (possibly even *negative*), because his life insurance coverage will drop from (say) $1 million down to $0. Multiplied through by his probability of death that year, the "fair market value" of this coverage could be significant, more than offsetting the appreciation in his mutual fund versus the gain in the cash value in his rival's whole life policy that year.

The reason it's dangerous to think in terms of "rates of return"—and to compare the internal rate of return on a standard whole life illustration with projections for an equity-based mutual fund—is that an insurance contract is a complicated animal.

Conclusion

Nelson Nash often tells his audience that using whole life for banking purposes "isn't about interest rates." Sometimes critics think that Nelson is implicitly admitting that whole life is "a bad deal."

On the contrary, the reason it's dangerous to think in terms of "rates of return"—and to compare the internal rate of return on a standard whole life illustration with projections for an equity-based mutual fund—is that an insurance contract is a complicated animal. Just properly *setting up the apples to apples comparison* involves a deep understanding of permanent life insurance, of the kind that most analysts—including Dave Ramsey—don't begin to appreciate.

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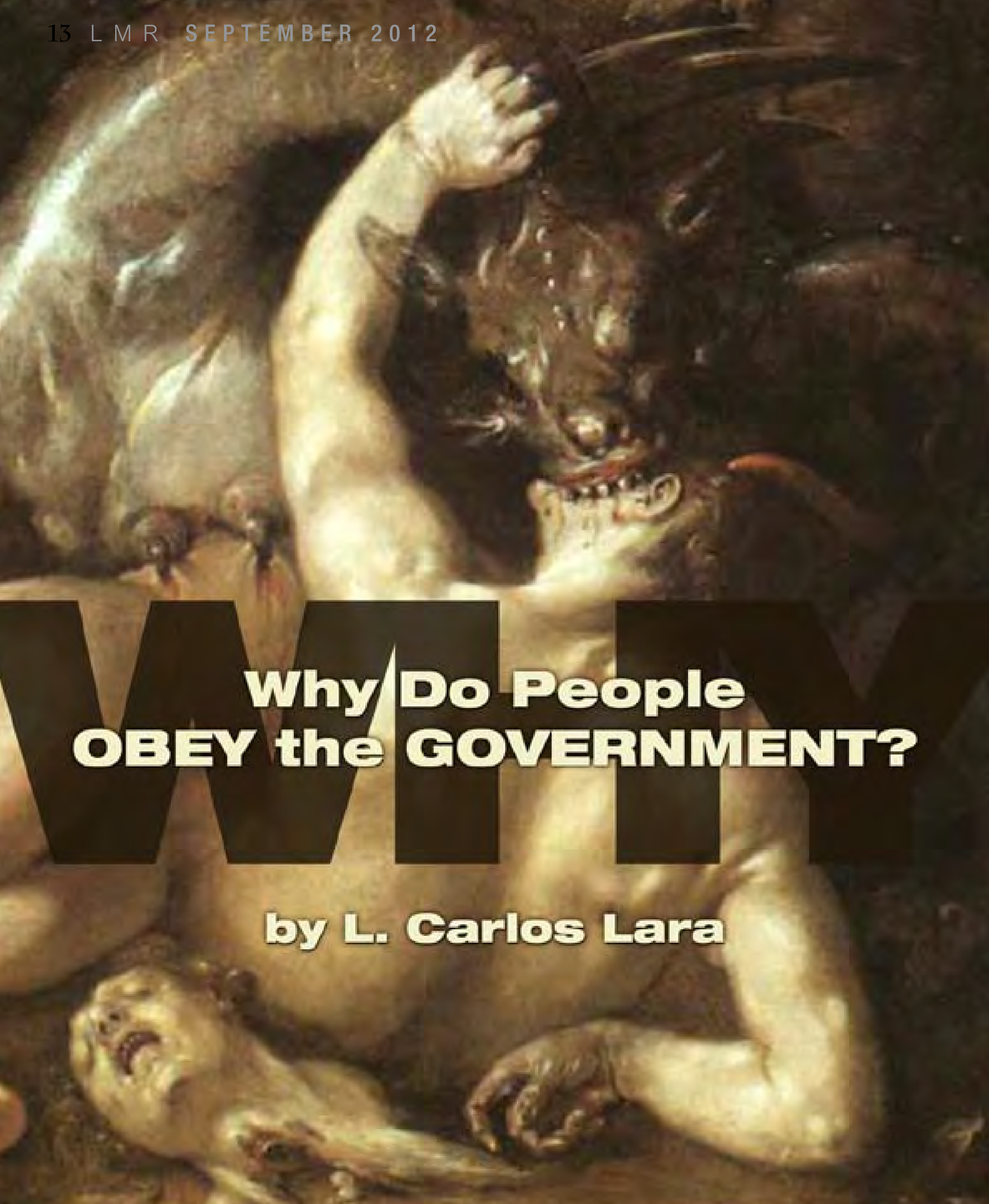
1. See Dave Ramsey's "The Truth About Life Insurance," October 25, 2010, available at: http://www.daveramsey.com/article/the-truth-about-life-insurance/



Why Do People OBEY the GOVERNMENT?

by L. Carlos Lara

In the August 2012 issue of the LMR I wrote about a recent and truly remarkable scientific discovery made by the Rensselaer Polytechnic Institute (RPI) of New York. This study found that when just 10 percent of the population holds an unshakable belief, the majority of the society comes to adopt their belief. The essence of the discovery for those of us that are spreading the message of Austrian Economics, the Sound Money Solution and Privatized Banking is that the 10 percent mark was the tipping point. When the number of committed opinion holders is below 10 percent, there is no visible progress in the spread of ideas. It is when that number grows above 10 percent that the idea turns into an evangelistic explosion. [1]

In a country with over 300 million inhabitants, 10 percent would represent roughly 30 million people. Now admittedly that is still a lot of minds to convert to one's belief, but at the same time, 10 percent is but a fraction of the much larger whole. Can such a small number of believers influence an entire society? Apparently, it can. According to the Rensselaer study the right message held together by a mere remnant of the population has the potential to spread like a virus literally overnight.

What is uncanny is that this recent RPI discovery confirms what Austrians have always believed was necessary to instigate a dramatic political and economic turnaround in this country. The only reason it hasn't

This study found that when just 10 percent of the population holds an unshakable belief, the majority of the society comes to adopt their belief.

happened yet is that we just don't quite have 10 percent of the population convinced, in spite of the fact that we see evidences of a changing mindset everywhere. For this reason there is always hope. It is this hope that serves to encourage us to remain steadfast in our belief and motivated to continue the spreading of our ideals to as many people as possible. We know we already have a powerful solution and that it works for individuals and businesses without having to involve government in any way. All we need to do is share it. When enough people finally grasp its main tenets, it's possible we will live to see the tipping point realized.

But there is one other aspect of our strategy that I believe is not fully understood, or has still not been fully grasped by those helping to build the 10%. It merits close scrutiny and may explain our lack of impetus in selling our ideas with conviction. Without the benefits of this one unique insight, the ability to visualize the tipping point can seem difficult and far-fetched. With it, the ember burns brighter and converting others to our beliefs becomes easier and more feasible. The explosion we refer to becomes visible in the mind's eye. What I speak of is the answer to this question: ***why do people, in all times and places, obey the commands of the government which always constitutes a small minority of the total population?*** This single axiom— that we willingly give our general consent to this small minority and allow them to continue their despotism— is both puzzling and appalling!

This question when examined carefully is thought provoking. It can open the closed mind to sound thinking, perhaps for the very first time in a person's life. In fact, Austrian Murray Rothbard considered this question and its answer crucial to our overall strategy. To validate his sentiment he found a long forgotten 16th century document known as ***The Politics of Obedience: The Discourse of Voluntary Servitude*** by Etienne De La Boetie. It is a masterful revelation of brilliant thinking. The summation of the question, the answer and the solution can be quickly examined and grasped in the document's table of contents listed below. But, it is La Boetie's own style of writing and the coherency of his argument that bestows upon us his percipient insight.

Part I—*The fundamental political question is why do people obey a government. The answer is that they tend to enslave themselves, to let themselves be governed by tyrants. Freedom from servitude comes not from violent action, but from the refusal to serve. Tyrants fall when the people withdraw their support.*

Part II—*Liberty is the natural condition of the people. Servitude, however, is fostered when people are raised in subjection. People are trained to adore rulers. While freedom is forgotten by many there are always some who will never submit.*

Part III—*If things are to change, one must realize the extent to which the foundation of tyranny lies in the vast networks of corrupted people with an interest in maintaining tyranny.* [2]

The Mystery of Civil Obedience

Why do people obey the government? In 1553 Etienne De La Boetie, a young French law student and member of the ruling class, asked this intuitive question and then proceeded to answer it. In doing so he delved deeply into the nature of tyranny and into the nature of state rule itself. The insight he found is astonishing! La Boetie gets our attention almost immediately by stating that every tyranny is grounded upon general acceptance of the public. In other words, the people grant their obedience by their own consent.

But this is just the beginning of his genius. Study well his comments and find yourself drawn to the power of his message. The italicized paragraphs listed below are La Boetie's own words speaking to us with complete relevancy after 500 years.

We know we already have a powerful solution and that it works for individuals and businesses without having to involve government in any way. All we need to do is share it.

Etienne De La Boetie:

"I should like merely to understand how it happens that so many men, so many villages, so many cities, so many nations, sometimes suffer under a single tyrant who has no other power than the power they give him; who is able to harm them only to the extent to which they have the willingness to bear with him; who could do them absolutely no injury unless they preferred to put up with him rather than contradict him. Surely a striking situation! Yet it is so common that one must grieve the more and wonder the less at the spectacle of a million men serving in wretchedness, their necks under the yoke, not constrained by a greater multitude than they… [3]

…nothing more than the power that you confer upon him to destroy you. Where has he acquired enough eyes to spy upon you, if you do not provide them yourselves? How can he have so many arms to beat you with, if he does not borrow them from you? The feet that trample down your cities, where does he get them if they are not your own? How does he have any power over you except through you? How would he dare assail you if he had no cooperation from you?" [4]

Shall we call subjection to such a leader cowardice... When a thousand, a million men, a thousand cities, fail to protect themselves against the domination of one man, this cannot be called cowardly, for cowardice does not sink to such a depth… What monstrous vice, then, is this which does not even deserve to be called cowardice, a vice for which no term can be found vile enough…? If we led lives according to the ways intended by nature and the lessons taught by her, we should be intuitively obedient to our parents; later we should adopt reason as our guide and become slaves to nobody." [5]

La Boetie's call for nonviolent civil disobedience is based strictly on these two premises: the fact that all rule rests on the consent of the people and the great value of natural liberty. If tyranny really rests on mass consent then the overthrow of tyranny is simply mass *withdrawal* of that consent—under such a nonviolent revolution, tyranny collapses.

Etienne De La Boetie:

"Resolve to serve him no more, and you are at once freed. I do not ask that you place hands upon the tyrant to topple him over, but simply that you support him no longer; then you will behold him, like a great Colossus whose pedestal has been pulled away, fall of his own weight and break in pieces." [6]

When given a free choice La Boetie points out that the people will always vote to be free rather than to be enslaved, therefore, the establishment of tyranny is always painful to the masses in the beginning. Later people serve willingly because they are simply born into the tyrannical system and it becomes a *habit*..[7]

La Boetie's call for nonviolent civil disobedience is based strictly on these two premises: the fact that all rule rests on the consent of the people and the great value of natural liberty.

Etienne De La Boetie:

"This is why men born under the yoke and then nourished and reared in slavery are content, without further effort, to live in their native circumstance, unaware of any other state or right, and considering as quite natural the condition into which they are born…the powerful influence of custom is in no respect more compelling than this, namely, habituation to subjection. The people will grow accustomed to the idea that they have always been in subjection, that their fathers lived in the same way; they will think they are obliged to suffer this evil, and will persuade themselves by example and imitation of others, finally investing those who order them around with proprietary rights, based on the idea that it has always been that way." [8]

Government's Propagandistic Devices: Ideology, Mystery and Circuses

La Boetie explains that government has ways of encouraging consent. One method is by providing the masses with circuses with entertaining diversions. We only need to rouse ourselves from the drug like slumber we are in to see that we are subjected to similar type propaganda to this very day.

Etienne De La Boetie:

"Plays, farces, spectacles, gladiators, strange beasts, medals, pictures, and other such opiates, these were for ancient peoples the bait toward slavery, the price of their liberty, the instruments of tyranny. By these practices and enticements the ancient dictators so successfully lulled their subjects under the joke, that the stupefied peoples, fascinated by the pastimes and vain pleasures flashed before their eyes, learned subservience as naively, but not so creditably, as little children learn to read by looking at bright picture books." [9]

Another method the governing authorities use to induce consent is by tricking the masses into believing that their rulers are guardians of their liberties, benevolent and wise. All their speeches are cloaked in words expressing the public's welfare and common good. They have gone as far as imputing themselves to the very status of divinity.

Etienne De La Boetie:

"The kings of the Assyrians and… the Medes showed themselves in public seldom as possible in order to set up a doubt in the minds of the rabble as to whether they were not in some way more than man. Symbols of mystery and magic were woven around the Crown, so that by doing this they inspired subjects with reverence and admiration…It is pitiful to review the list of devices that despots used to establish their tyranny; to discover how many little tricks they employed, always finding the populace conveniently gullible." [10]

"Tyrants would distribute largesse, a bushel of wheat, a gallon of wine, and a sesterce: and then everybody would shamelessly cry, 'Long live the King!' The fools did not realize that they were merely recovering a portion of their own property, and that their ruler could not have given them what they were receiving without having first taken it from them." [11]

Finally, La Boetie makes his most impressive contribution in his argument, which discloses the secret of domination. This is the permanent purchase of a continuing hierarchy of subordinate allies and

As the hierarchy of privilege descends from those who profit the most to those who profit less it finally reaches down to the mass of people who falsely think they can benefit from petty favors. More importantly, it keeps all the subjects divided.

bureaucrats—the network that keeps the tyrannical system in place. La Boetie says that this is the mainspring, the foundation of despotism. This large sector of society is not merely duped by the occasional handouts of the state, nor its clever use of mystery and ideology. This sector makes a permanent living out of the proceeds of despotism.

Etienne De La Boetie:

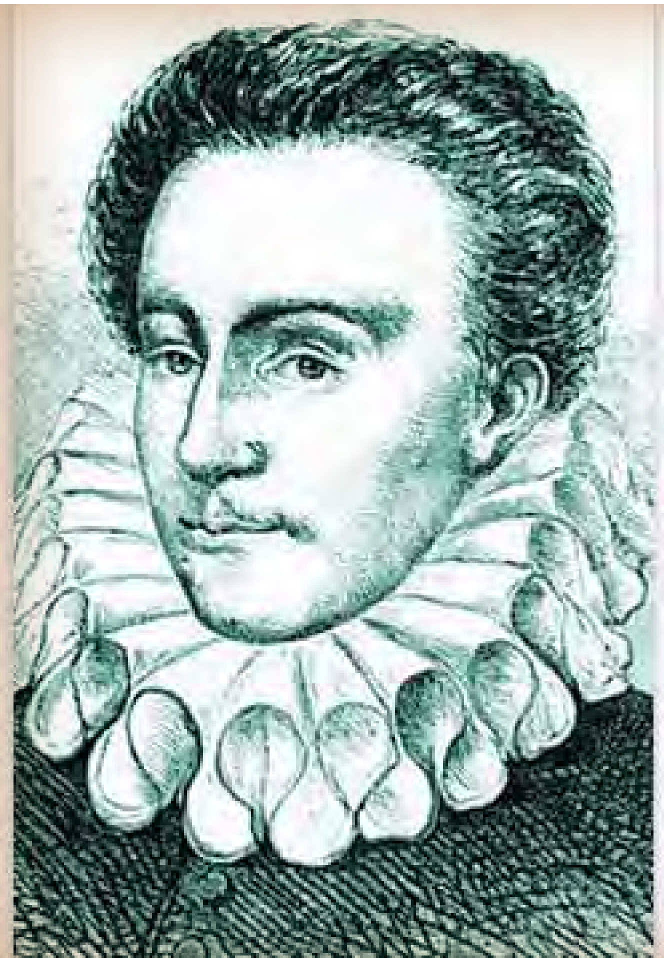
"A hierarchy of patronage from the fruits of plunder is thus created and maintained: five or six individuals are the chief advisors and beneficiaries of the favors of the king. These half-dozen in a similar manner maintain six hundred who profit under them, and the six hundred in their turn maintain under them six thousand, whom they promote in rank, upon whom they confer the government of provinces or the direction of finances, in order that they may serve as instruments of avarice and cruelty, executing orders at the proper time and working such havoc all around that they could not last except under the shadow of the six hundred.

When the point is reached, through big favors or little ones, that large profits or small are obtained under a tyrant, there are found almost as many people to whom tyranny seems advantageous as those to whom liberty would seem desirable. Whenever a ruler makes himself a dictator, all the wicked dregs of the nation, all those that are corrupted by burning ambition or extraordinary avarice, these gather around him and support him in order to have a share in the booty and to constitute themselves petty chiefs under the big tyrant." [12]

Here we see, finally, how the entire structure is cemented. As the hierarchy of privilege descends from those who profit the most to those who profit less it finally reaches down to the mass of people who falsely think they can benefit from petty favors. More importantly, it keeps all the subjects divided. The network of tyranny is likened to a giant pyramid scheme where in return for his or her own subjection those closest to the ruler are permitted to oppress all those at the bottom.

How is tyranny to be overthrown?

If government is cemented as concretely as La Boetie has shown us, how are we to convince the public



What La Boetie states in his closing remarks is that not all the people will be deluded or sunk into habitual submission. There is an elite class of people that will never submit.

to come to the point of deciding to withdraw their consent? Hopefully all of those who have read our book, *How Privatized Banking Really Works,* and Nelson Nash's book, *Becoming Your Own Banker,* can now after reading a small portion of La Boetie's Discourse see more clearly the contribution Privatized Banking can have on the society. If we can see the relationship then we can share the message with conviction. *Privatized Banking* is not simply a financial strategy or a conversation about money and banking. Privatized Banking is about secession from the existing order.

What La Boetie states in his closing remarks is that not all the people will be deluded or sunk into habitual submission. There is an elite class of people that will never submit. They will not be fooled by the government's chicanery and will intentionally strive to shake off the yoke of bondage. In contrast to the masses these few possess clear and sound thinking minds because they have trained themselves through study and learning. The remnant always remains.

Etienne De La Boetie:

"Even if liberty had entirely perished from the earth, such men would invent it. Because of the danger these educated people represent, tyrants often attempt to suppress education in their realms, and in that way those who have preserved their love of freedom, still remain ineffective because, however numerous they may be, they are not known to one another; under the tyrant they have lost freedom of action, of speech, and almost of thought; they are alone in their aspiration.

[Nevertheless…

h]eroic leaders can arise who will not fail to deliver their country from evil hands when they set about their task with a firm, whole hearted and sincere intention." [13]

What is plain for all of us to see is the task before us. We must, therefore, press on and finish the work we have started. To win this war of ideas we must form our own network from this special class of people and build the 10%. Through our process of educating the public to the truth our efforts will not return to us void. Our strategy will ultimately work. Thank you Etienne De La Boetie!

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http://news.rpi.edu/update.do?artcenterkey=2902

2. The Politics of Obedience: The Discourse of Voluntary Servitude, Etienne De La Boetie, Introduction by Murray N. Rothbard, Translated by Harry Kurz, Ludwig von Mises, Auburn, Al 36832 Page 5, Table of Contents

3. The Politics of Obedience. Page 40

4. The Politics of Obedience, Page 46

5. The Politics of Obedience, Page 42-43

6. The Politics of Obedience, Page 46-47

7. The Politics of Obedience, Page 21, (Rothbard points out that throughout history the only possible exception to this was the voluntary choice of the Israelites in wanting a King to rule over them. He also inserts an opinion from David Hume in the essay Of the Origin of Government in which Hume stated that, "habit soon consolidates what other principles of human nature had imperfectly founded; and men, once accustomed to obedience, never think of departing from that path, in which they and their ancestors have constantly trod.")

8. The Politics of Obedience, Page 54

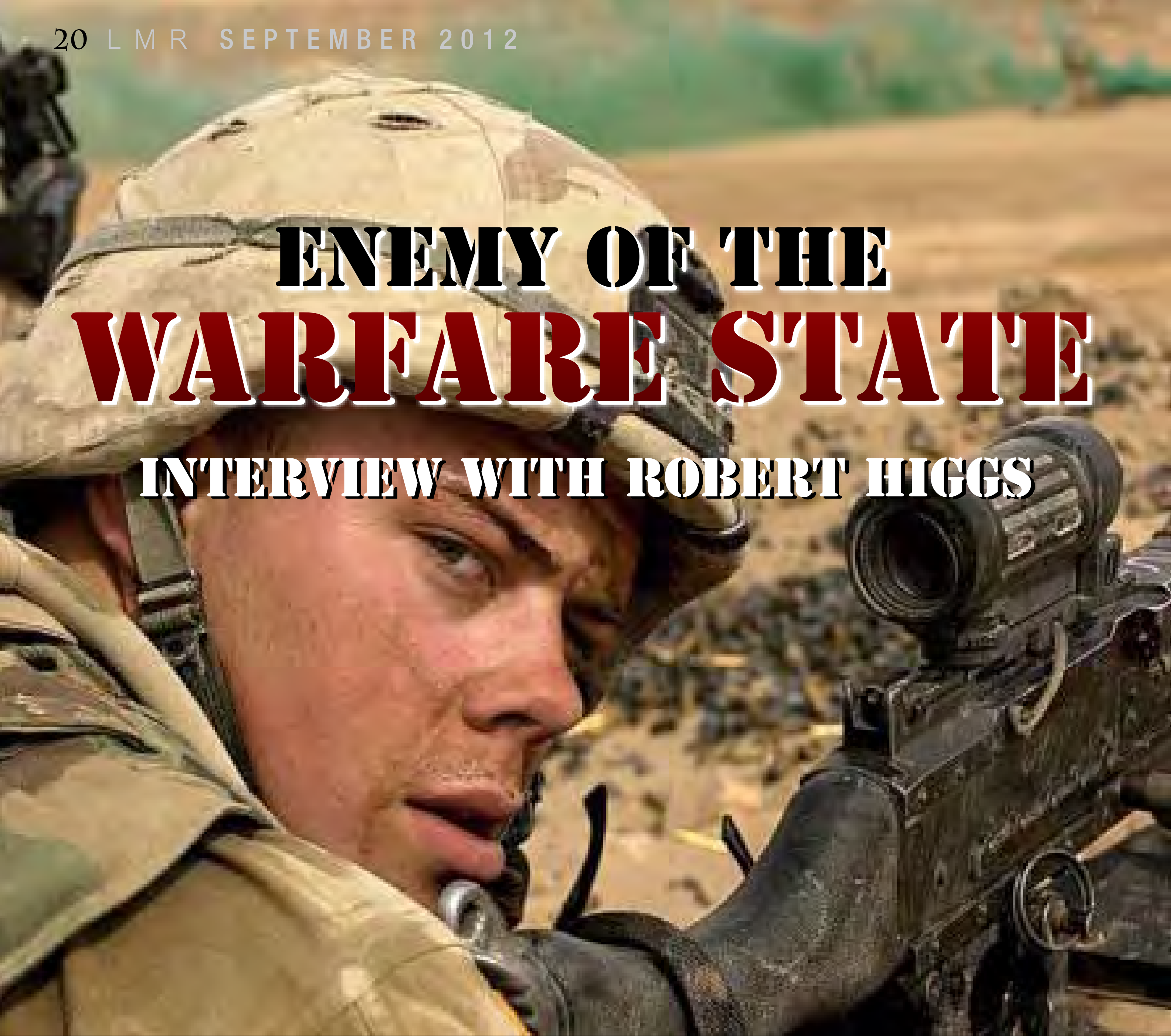
9. The Politics of Obedience, Page 64

10. The Politics Of Obedience, Page 66

11. The Politics of Obedience, Page 64

12. The Politics of Obedience, Pages 72-73

13. The Politics of Obedience, Page 60



ENEMY OF THE WARFARE STATE

INTERVIEW WITH ROBERT HIGGS

Robert Higgs is Senior Fellow in Political Economy for The Independent Institute and editor of the Institute's quarterly journal *The Independent Review.* He received his Ph.D. in economics from the Johns Hopkins University, and he has taught at the University of Washington, Lafayette College, Seattle University, and the University of Economics in Prague. He is the author or editor of fifteen books, and the author of hundreds of articles for professional and popular journals, magazines, and websites. Much of his scholarly work has focused on the political economy of the warfare state.

Lara-Murphy Report: How did you discover Austrian economics?

Bob Higgs: I stumbled upon F. A. Hayek's 1945 article "The Use of Knowledge in Society" soon after I began my career as an economics professor at the University of Washington in 1968. I liked it, used it in my teaching, and cited it in my writing. This article led me to read more articles and books by Hayek, which ultimately led me to read Ludwig von Mises's great book *Human Action*. My thinking was never the same afterward. During the past several decades, I have deepened my understanding of Austrian economics and, perhaps, made small contributions to it.

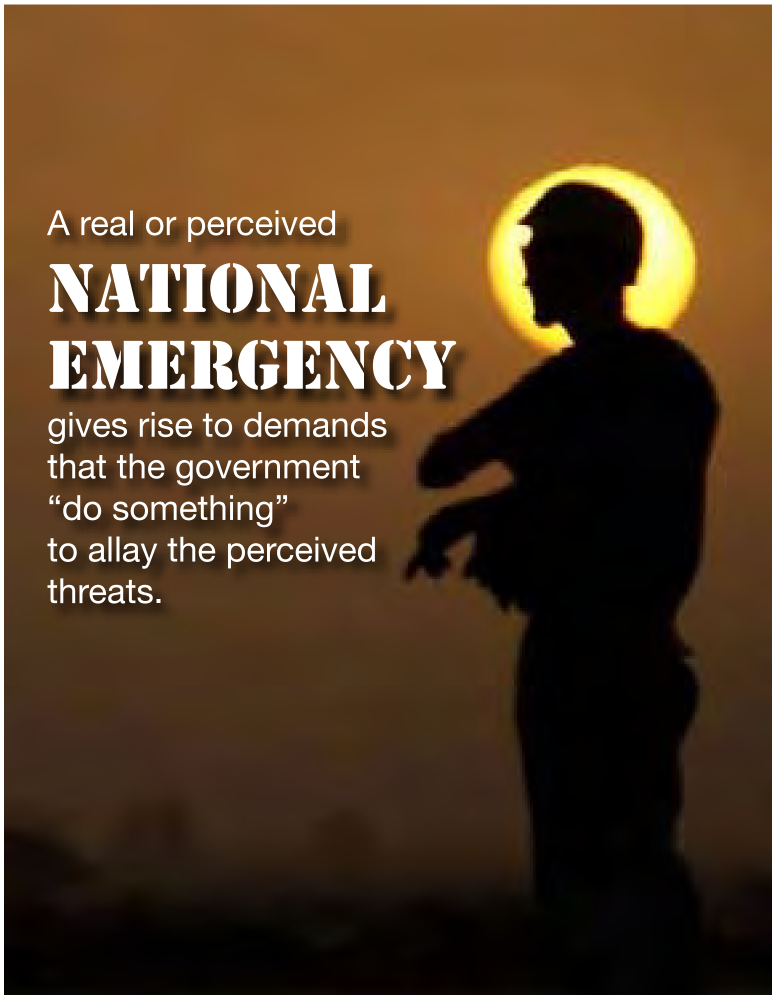
LMR: A main theme of your work is encapsulated in one of your book titles, *Crisis and Leviathan*. Can you summarize your viewpoint?

BH: In polities where the rulers are somewhat responsive to popular clamor and where the dominant ideology is something like progressivism or social democracy, a real or perceived national emergency gives rise to demands that the government "do something" to allay the perceived threat(s). Politicians respond eagerly in ways that enhance their own official powers and enlarge the size and scope of government. When the crisis wanes or disappears, opportunists who seek to promote their own interests—both inside and outside the government—use their power or influence to retain some of the emergency powers and to prevent the size and scope of government from reverting to pre-crisis dimensions. So, given certain preconditions, crises give rise to a ratchet effect on the growth of the government's size, scope, and power, shifting the state's growth trajectory to a permanently higher path.

LMR: In a talk at the Mises Institute you once said that the view of war depicted in the dark comedy *Dr. Strangelove* was very close to, but not quite, how things worked in the real world. Can you elaborate?

BH: *Dr. Strangelove* gives us a cast of characters most of whom in various ways seem more or less mad. But if one removes the slapstick, the film's portrayal of the characters, their thinking, and their demonstrated values (or lack thereof) bears a strong resemblance to what one finds in the actual national-security state. In particular, one finds real decision-makers who toy with death and destruction on an unimaginably horrible scale, yet run through their paces as if they were doing nothing more significant than playing a game of chess in the park.

Prominent among them are the men and (much less frequently) women whom Derek Leebaert calls "emergency men"—"the clever, energetic, self-assured, well-schooled people who take advantage of the opportunities intrinsic to the American political system to trifle with enormous risk."[1] "Emergency men," as Leebaert shows, are "often synonymous with war hawks, [and] tend to prevail in policy arguments."[2] Despite their impressive credentials, seemingly relevant backgrounds, and important connections, these emergency men tend to be fools and wishful thinkers, more inclined to toss around slogans than to understand in detail the people



and places they seek to move here and there on the global chessboard.

It is therefore not surprising that U.S. foreign policy for the past century has been for the most part a saga of senseless wars and squandered opportunities to promote real peace and prosperity for the mass of Americans and others. If one doubts that *Dr. Strangelove's* characters are anything like the real actors, one need only look into such top actors as General Thomas S. Power and General Curtis E. LeMay, or research what the war strategists at RAND were routinely cooking up, especially in the 1950s, 1960s, and 1970s.

LMR: Would you say that powerful people purposely cause wars for their own agendas, or do you think they simply steer events on the edges to enrich themselves when the opportunity presents itself?

BH: They do both, depending on their objectives and the current circumstances. In World War I, for example, powerful English and American parties, with critical help from Woodrow Wilson's closest adviser Colonel Edward M. House, took advantage of Wilson's delusions of grandeur to steer him toward plunging the United States into the European bloodbath. A generation later, Franklin D. Roosevelt worked relentlessly, along with a massive but covert British propaganda operation, to get the United States into the war against Germany. When the Germans declined to take the bait in the North Atlantic, the U.S. government undertook steadily strengthened economic warfare against Japan. This tactic eventually proved successful in provoking the Japanese to attack, thereby permitting Roosevelt to bring a united populace into the war against Germany through "the back door." Of course, however the country goes to war, legions of opportunists—both inside and outside the government—invariably leap into the fray to feather their own nests with power and pelf they could not acquire in normal peacetime conditions.

LMR: We understand that you are moving to Mexico from your current home in Louisiana. Can you share the reasons for this decision, and what

However the country

GOES TO WAR,

legions of opportunists—both inside and outside the government—invariably leap into the fray to feather their own nests with power and pelf they could not acquire in normal peacetime conditions.

In making our arrangements to move, we have learned that things happen more slowly in Mexico, especially when legal services, government permits, document recordings, and so forth are involved. One needs to have a great deal of **PATIENCE.**

you've learned in the process?

BH: My wife and I have several motives for emigrating to a remote village in Mexico. We love the Caribbean coast and the adjacent waters; we enjoy Mexicans and many aspects of Mexican culture; and we relish the idea of living in a tropical paradise amid marvelous creatures on the land and in the sea. However, we are also moving because the United States is now a police state and becomes almost daily a more dreadful and intolerable police state. Even if we supposed that we might be lucky enough to avoid the worst that this vile state inflicts on its many victims, we abhor what the country has become and look forward to distancing ourselves from it. Americans have sold their souls to the devil as politicians have manipulated their fears. Many more of them ought to have seen through this shameless and evil manipulation.

In making our arrangements to move, we have learned that things happen more slowly in Mexico, especially when legal services, government permits, document recordings, and so forth are involved. One needs to have a great deal of patience. We have also learned more about the specific area where we will live, and we look forward to taking advantage of the opportunities that await us there for a stimulating yet relaxed style of life.

LMR: Your latest book is *Delusions of Power*. What will long-time fans discover in this book that isn't in your earlier ones?

BH: *Delusions of Power* offers some new analyses of democracy and of the age-old problem of self-government. The point of view throughout the volume is more openly hostile to government as we know it—that is, government that lacks the explicit, voluntary, individual consent of every adult subject to it—and more openly supportive of genuine self-government. Also on display are closer analyses of how rulers make decisions about war and peace and about how the various factors associated with the "crisis and leviathan" phenomenon operate and relate to one another.

I also offer more detailed scrutiny of historical topics such as Colonel House's role in bringing the United States into World War I and in making U.S. policies during the war and afterward, especially at the Versailles peace conference. I explain the importance of U.S. economic warfare against Japan during the two years before the attack on Pearl Harbor. I present new data about and more penetrating analyses of the economic boom-bust cycle than I have offered in previous books, as well as more detailed analyses of the military-industrial-congressional complex. The book is also more up to date, including a full examination of the so-called Great Recession from which the United States has yet to recover fully. Reviews of eight recently published books round out the volume and show how my views compare with recently published scholarship on some of the most important topics considered in the book.

1. Derek Leebaert, *Magic and Mayhem,* 2010, p. 5.
2. Ibid., p. 159.

Events and Engagements

2012

October 3 · Indianapolis, IN

Murphy participates in "Morality of Capitalism" discussion
hosted by Intercollegiate Studies Institute

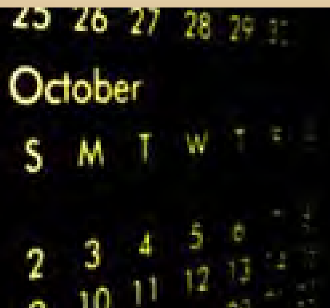
November 3 · Nashville, TN

Murphy gives speech at "Music City Liberty Fest"

2013

February 6-8 · Birmingham, AL

Lara and Murphy present on Certification Program
at Infinite Banking Concept Think Tank



Some events may be closed to general public.
For more information: LMRevents@usatrustonline.com