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## How Inflation Drinks Your Milkshake

And why it is, as Mises called it, “the most radical revolutionary institution in the world.”

By Dan Sanchez May 19, 2014

In the denouement of the film *There Will Be Blood*, the antihero Daniel Planview dramatically reveals to his nemesis that he has secretly siphoned away all of the latter’s underground oil.

“Drainage!” he bellows, as only Daniel Day-Lewis can, “Drained dry. I’m so sorry. Here, if you have a milkshake, and I have a milkshake, and I have a straw. There it is, that’s a straw, you see? You watching? And my straw reaches acroooooooss the room, and starts to drink your milkshake. I... drink... your... milkshake! [sucking sound]”

Through inflation (expanding the money supply), as I will show, the state and its cronies “drink our milkshake” every day. Only, it does so surreptitiously, with nary a sucking sound to be heard.

Understandably, everyone would like to see their own personal money supply increase. That would obviously make the individual better off. But does it make sense to conclude from that, that if a whole society’s money supply increased, that the society would be better off?

To use a favorite example of economist Murray Rothbard’s, say an “Angel Gabriel” magically multiplied everyone’s money supply tenfold overnight. Would all of society wake up richer? If so, that’s great news, because our “angels” in the government have a similar power. Under fiat money, the quantity of money is whatever the government says it is. So if “more money” makes the whole society wealthier, the government can enrich everybody with a simple government declaration.

Say the government increases the money supply by just having people add zeroes to their bills. Isn’t it regrettable, after all, that not everyone can afford a new computer? Some people only have a dollar to



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their name. To alleviate this situation, the government could just have everyone add three zeroes to their bills. Now everyone has at least \$1,000, and can afford a new computer!

But why stop there? Not everyone can afford a private jet. So why not keep adding zeroes until everyone can? Voilà, our society will then be so rich, that we'll all be zooming across the country every weekend.

Obviously something is wrong with this line of reasoning. When speaking to student groups, to show them what the problem is, I walk them through the following thought experiment.

I tell them to imagine that the room we are in is the whole world; that outside of it is just empty space, and that the entire world economy is contained within this lecture hall. The floorspace is the available land. The objects in front of them are all the capital goods, like tools (pencils) and factories (tables). Other objects are the consumers' goods, like food (the doughnuts in the back), home electronics (mobile phones), and homes (other tables). And we, the people in the lecture hall, are the economy's population. All the resources are owned by individuals among us. And each individual owns his own body and can use it for labor.

Each individual also owns money, I tell them. "Let's say it's a fiat money system, and that a piece of paper at your table is your computer screen showing the balance of your money stock. And let's say by coincidence that everyone has exactly a million dollars. So write 1 followed by six zeroes (leave out the commas)."

Now let's inflate and see what happens, I say. "Everyone go ahead and write a zero at the end of your money balance at the same time on the count of three. One, two, three!"

I tell them to look around the room. Did anything change? Did the floorspace extend; that is to say, is there more or better land for farming, industry, or for living? Are there suddenly more or better pens (tools) or tables (factories and homes)? Are there more or better doughnuts (food) or mobile phones (home electronics)? Are there more of us? Are we smarter or

stronger as workers?

Thinking about these questions makes it very clear to the students that increasing the money supply would not make society more prosperous, because it does not increase or improve the consumable and producing "stuff" available to humanity.

Then I point out that, in real life, inflation doesn't happen that evenly. A few people get the new money first: generally privileged bankers. So I tell the students at one table that they are the privileged bankers. And then I tell only those students to add another zero to their bank balances.

I ask again, is there now more consumable or producing "stuff"? Of course, still, no. Society as a whole isn't wealthier. But are the people at the "privileged banker" table wealthier because of the new money? There's no denying it. They now have ten times more money than anyone else does, as well as ten times more than they themselves would have had otherwise.

But being wealthier, means they can get more actual "stuff." And if, as we've established, the new money didn't create more total stuff, they can't get more stuff, unless other people get less stuff. This government inflation (defined as an increase in the money supply), therefore, is necessarily a redistribution of wealth. It's a zero-sum game: a win-lose situation, unlike events in a free market, which are win-win. A loser is effectively taxed by an act of the government for the sake of the winner.

Who loses, then? Who gets less "stuff"?

At that point in the presentation, I point to a "regular," non-banker person in the audience, and say, "Let's say you want to buy a house. You want to buy his house," pointing to another person. But so does one of the privileged bankers, newly flush with cash. So they competitively bid for the house.

The regular person *loves* the house, but is only able to pay, at most, \$50,000 for it. The banker doesn't love the house all that much. To him, it would just be an extra house for guests: no big deal. But, he's got money burning a hole in his pocket, so, what the

heck, he'll bid \$60,000 for it, which is far more than he'd pay had he not recently had such a large cash infusion. He outbids the regular person, and gets the house.

Who lost out, due to the inflation? The regular person who didn't get the house. Who won? The privileged banker who did. It's as if the government, through its inflationary policy, reached out and redirected the house, that otherwise would have gone to the regular person, to the privileged banker.

Who else won? The house-seller, of course, who got \$10,000 more than he would have otherwise. The new money bid up the price of what he was selling, to his benefit. Does that mean, as the new money radiates out into the economy, that the price of what *everyone* sells will be bid up, and *everyone* will benefit? That's impossible, because, remember new money does not increase or improve society's resources. It's still a zero-sum game: a win-lose situation. So if people like the house-seller wins, who commensurately loses?

The house-seller benefited because the new money reached him early, before the prices of the things he buys are bid up. For late-receivers of the new money, the prices of the things they sell are bid up (like wages for their labor) only after the prices of the things they buy (like groceries) are bid up even higher. So inflation (now alternatively defined as a general increase in prices) is a redistribution of wealth from late-receivers, who are taxed to support early-receivers.

Of course the government itself is among the earliest receivers, so it is one of the chief beneficiaries of inflation.

Inflation (defined as a general increase in prices) also taxes savers (since their nominal cash balances stay the same while nominal prices go up), and redistributes their wealth to debtors (since their nominal income goes up, while their nominal debt stays the same).

Of course the government itself is among the world's biggest debtors, so it benefits this way too.

Now, what would happen if these redistributions were accomplished the usual way, through taxation

and welfare disbursement (whether individual or corporate welfare)? What would happen if each of the above losers (the house auction loser, the worker who received the new money late, and the saver) were instead just sent a tax bill? And what if they all saw headlines about welfare disbursements to the winners (the privileged banker, the house-seller, and the debtor)? The losers would be outraged, and would more likely demand that the redistribution be stopped. This is especially true, because so many of the winners from inflation are already wealthy, and hardly need the welfare. The biggest debtors include, not only the government, but also highly-leveraged investors, who are banking on future inflation.

The IRS, after all, is like a mugger. You see the government demanding the money and taking it (unless, of course, you're fooled by Milton Friedman's withholding scheme). You see the mugger's knife, and so you're more likely to try to defend yourself from him.

The Federal Reserve (which does the inflating), on the other hand, is more like a pickpocket. Its taxation is far more insidious. Unless you read articles like this one, you don't even see its hand in your pocket.

The house auction loser thinks, "Aw, shucks, I got outbid, and didn't get the house. Them's the breaks, I guess," never imagining it's the government's doing.

The late-receiver of new money thinks, "Man, my wages aren't keeping up with rent and groceries. Times sure are tough," never imagining it's the government's fault (except perhaps to foolishly think the minimum wage should be higher).

The saver who is temporarily out of his contract work with a busted leg thinks, "Wow, I'm burning through my savings a lot faster than I thought I would," never imagining the government's role in his predicament.

This is the way the modern state gets away with arrogating prodigious amounts of society's wealth to itself and its cronies, virtually at will. Americans are largely unfazed when subjected to acts of looting of epic proportions, like the 2008 financial bailouts, and the lavish boondoggle of blood that was the Iraq War.

Sure, they are somewhat mildly concerned that the government is perhaps wasting wealth it has already gathered from previous taxation. But, since the financing is being effected through money-printing and not regular taxation, the people have no sense of how much of the enormous cost is being borne by *new* massive deductions from their own wealth.

It is for reasons such as these that Ludwig von Mises said that, "inflationary policy is the most radical revolutionary institution in the world." Every day it generates new money, the Fed effects an ongoing aristocratic economic revolution, quietly siphoning wealth from the people, like Daniel Plainview with his long milkshake straw, and pumping it into the vats of a privileged elite. Moreover, this makes us all poorer in an indirect fashion as well, by rewarding government beneficiaries at the expense of efficient producers, and by perpetuating the economically destructive business cycle.

Control over money is the State's back-door key to the storehouse of Society.

Dan Sanchez directs the Mises Academy at the Mises Institute. He writes at Mises.org and Medium.com. Follow him on Facebook and Twitter.

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Comment by R. Nelson Nash – *Dan did a great job with this explanation of the effects of inflation. It is our job to teach people how to avoid this con-game of Fractional Reserve Banking. It is done through understanding The Infinite Banking Concept and the use of Dividend-paying Whole Life Insurance provided by an Authorized Infinite Banking Institute Practitioner.*

## How Central Banks Are Waging War on Your Savings

by Mark Thornton on May 21, 2014

Martin Wolf is the chief economics commentator at the influential *Financial Times*. He has received numerous honorary awards, positions, and degrees. My first knowledge of him came from a friend who had attended a lecture where Mr. Wolf mentioned that

the best research on real estate economics was being done in Auburn, Alabama. I was quite shocked that Mr. Wolf was following our work here at the Mises Institute.

However, Mr. Wolf has only deteriorated in my estimation over time. He has reached an all time low with his recent editorial, ("Wipe out Rentiers with Cheap Money," 5/6/14) where he argues that the cheap money policy used by central banks was here to stay, so get used to it. What makes his conclusion so tainted is that he understands the consequences of this policy. He even invokes the famous remark of Keynes regarding the "euthanasia of the rentier" where he supported the ruination of people who earn interest on their savings.

He sees the problem as insufficient aggregate demand. Wolf considers the pre-2007 unsustainable credit boom a temporary fix, rather than the cause of the crisis brought about by central banks. His argument is that low interest rates and quantitative easing policy has been an insufficient policy response. His preferred solution is some type of massive public works program financed by government deficits. However, he believes that governments will refuse to borrow in order to build "productive assets."

This is classic Keynesian logic: solve the problems of debt and monetary expansion by engaging in more debt and monetary expansion. With governments reluctant to expand spending further he concludes that we are stuck with the second-best solution of a cheap money policy consisting of ultra low interest rates and quantitative easing. Besides, he notes, the "cautious rentier no longer serves a useful purpose."

Wolf is the unabashed mouthpiece for the ruling power elite. He clearly and correctly describes what this policy actually accomplishes — cheap monetary policy hurts most people in the economy, particularly workers and savers and *redistributes* wealth to the ruling elites. The losers from easy credit policy include the broad categories of insurance, pensions, and households. This long known result was recently confirmed in a study, referenced by Wolf, by the McKinsey Global Institute.

Insurance is far more important than most people think. Insurance protects us against the loss of life (life insurance), our health (medical insurance), our homes (home, flood, and fire insurance), and our vehicles (car insurance). There is also general liability insurance and various types of business insurance. Insurance companies even offer incentives to be better drivers, to maintain safer homes, and to live healthier lifestyles, and they strive to eliminate moral hazard. Insurance companies are hurt by cheap money policies because their interest return on investments are now lower than required to meet their payout obligations. This hurts the companies and their policyholders because it requires higher premiums and raises the possibility of bankrupting insurance companies.

Pensions and retirement savings accounts are also hurt by easy credit policies. These institutions arose to address the problems associated with increased longevity brought about by increased prosperity. By saving during your working career you provide income for your retirement. Cheap money policy and low interest rates discourage saving and also makes it more difficult for pensions to earn returns on their investments necessary to make future payouts to retirees. The same is true for individuals who have retirement savings accounts.

In order to achieve higher returns, pension funds and people saving for retirement have been forced into more risky investments. Savings accounts, money market mutual funds, certificates of deposit, and short-term government bonds earn less than 1 percent, and after taxes and inflation they are losing purchasing power. Hence, central banks have been forcing these people to invest in the stock markets and junk bonds and the possibility of large loses in the future.

The class labeled "households" is basically everyone except the small number of people who benefit from cheap money policy. Households are harmed in a variety of ways, including the weak job market, declining real wages, and the negative impact on savings. It has also harmed them by encouraging households to take on extremely high amounts of debt, much of which comes with much higher interest rates.

The winners from cheap money policy are the government, large corporations, and large banks in the US. Low interest rates clearly benefit borrowers with lower interest rates and governments, banks, and corporations are the biggest borrowers. In general, artificially low interest rates benefit capital and hurt labor. Cheap money policy by central banks helps banks, like subsidized flour policies would help bakeries. Banks are also helped by most forms of government bailouts.

The easy money policy makes it easy for large corporations to borrow large amounts of credit at very low interest rates. It also forces stock prices up as alternative forms of savings, such as certificates of deposits, yield a real negative return. It has also made it very cheap for corporations to buy back their stock and to leverage their balance sheets. The stock market bubble is the direct effect of the cheap money policy of the central bank.

Mr. Wolf and central bankers around the world have the idea that cheap money policies can increase stock prices and that this will lead to sustainable increases in investment, consumer spending, and increased aggregate demand. In reality, cheap money policies cause economic bubbles that are inherently unstable and subject to crash. It should be obvious that harming the workers and savers of society to benefit the wealthy ruling class is no way to get the economy back on track. Therefore, cheap money policy is a scam of gigantic global proportions.

Achieving economic recovery and growth requires first knowing what caused the problem in the first place. A lack of aggregate demand is the *effect*, not the *cause*. A lack of aggregate demand *is* the crisis, not the cause of it. The cause of the crisis is easy money policy and runaway government spending and debt. Continued easy money policy and government spending will only make the negative consequences of the crisis even worse.

The solution consists of: 1. Central banks should have no monetary policy and they should not interfere with interest rates. 2. Government budgets should be balanced and reduced over time. 3. Government

regulations, subsidies, and taxes should be eliminated. 4. Land, labor, and capital should be transferred from the public sector to the private sector. And, 5. Programs that burden future generations should be ended.

The horrible irony here is that when Keynes wrote approvingly of the euthanasia of the rentier class, he was speaking of a powerful class of monopoly capitalists and aristocrats. When Mr. Wolf speaks of the euthanasia of the rentier he is actually targeting "insurance, pensions, and households," with a policy that has enormous financial benefits to the class of people that Keynes was targeting for extinction!

In 1789 Marie Antoinette said "let them eat cake." In 2014, Mr. Martin Wolf tells us to eat "cheap money."

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*Comment by R. Nelson Nash – This article should give one a hint as to the quality of the advice that comes from the likes of FINANCIAL TIMES and Mr. Martin Wolf. Mark Thornton did a great job of shining the light of truth on this subject..*

## From Jackie Robinson to Donald Sterling: How the Free Market Ends Discrimination

By Thomas DiLorenzo May 17, 2014

When Branch Rickey integrated major league baseball in 1947 by hiring the great Jackie Robinson to play first base for the Brooklyn Dodgers, he did not do so because he was forced into it by any "civil rights" law. The federal civil rights laws at that point were almost twenty years into the future. Nor was he motivated by a sudden enlightenment on the issue of race. As the president and general manager of the Brooklyn Dodgers, Rickey was paid to make the Dodgers as profitable as possible. In order to do that, he had to recruit and develop the best baseball players he could find, regardless of skin color or anything else. He succeeded immediately with the hiring of Robinson,

as the Dodgers went to the World Series in that year, in no small part due to the efforts of Jackie Robinson.

The Branch Rickey/Jackie Robinson story illustrates the economics of discrimination, which modern economists associate with Nobel laureates Gary Becker and Kenneth Arrow, both of whom wrote books on the subject in 1957 and 1971 respectively. The theory is straightforward: If an employer exploits any worker or workers (because of race or anything else, including plain greed), this means that the worker is being paid significantly less than her marginal productivity (i.e., her additional contribution to his revenues). If she contributes say, \$1000/week in revenues through her work efforts but is only paid \$100/week, this fact creates a profit opportunity for competing businesses. A competitor can hire her away for say, \$200/week, which she would gladly accept, leaving the new employer with an \$800/week increase in revenues. Then another employer would be motivated to offer her say, \$300/week, \$400/week, etc. until she is paid close to her marginal product.

As Ludwig von Mises put it in *Human Action* (Scholar's Edition, page 592), the only way employers in a capitalist economy could get away with wage exploitation would be if there were "a universal monopoly of all kinds of production activities which can be created only by an institutional [i.e., governmental] restriction of access to entrepreneurship." The only place in the world where any such universal employer monopoly has ever existed is the socialist countries of the twentieth century, such as the Soviet Union, where *everyone* was a government employee and paid whatever crumbs their political masters deemed necessary to keep them alive and working. The worst example in world history of the exploitation of labor took place under the Marxian-inspired regimes.

Which brings us to the recent Donald Sterling/Los Angeles Clippers saga whereby Mr. Sterling, the billionaire owner of the professional basketball team, was drummed out of the NBA (and of polite society) for making racist comments (telling a "girlfriend" some fifty years his junior to not bring "black people" to his basketball games).

From all news accounts, Donald Sterling is a creepy character who may well have racial hatred in his heart. But even so, in order to survive in one of the few remaining industries that relies almost exclusively on meritocracy, he was forced *by competition* to make multi-millionaires out of dozens of black athletes over the past thirty years as owner of the Los Angeles Clippers basketball team. Just this past season alone he paid the following African-American athletes the following sums (according to the Web site "HoopsHype"): Chris Paul (\$18.7 million); Blake Griffin (\$16.4 million); DeAndre Jordan (\$11 million); Jamal Crawford (\$5.2 million); Jared Dudley (\$4.25 million); Matt Barnes (\$3.25 million); Darren Collison (\$1.9 million); Willie Green (\$1.4 million); Ryan Hollins (\$1.2 million); Reggie Bullock (\$1.15 million). Donald Sterling did not pay these huge salaries because he loves black people; he paid them because he loves making money (or at least trying to).

One of the leading tenets of political correctness in the university world today is that, because America is such a racist country, and because capitalism is supposedly such a useful tool for the exploitation of labor, black people can never make it on their own. They supposedly need to be coddled, protected, employed, advanced, and babied by the state and its paid minions in the university world and elsewhere. Nothing disproves this flaky superstition more convincingly than the meritocracy of professional sports.

The economics of discrimination is a well-guarded secret at most universities because it so easily disproves the politically-correct "black-people-can-never-make-it-on-their-own" theory. When an academic does make the economically-informed argument about how competition deals with wage discrimination, he is typically libeled, smeared, and denounced as a racist (or worse) by the cultural Marxists on the faculty, if not the university administration as well. This was the case with Professor Walter Block several years ago after presenting a state-of-the-art lecture on the economics of discrimination at Loyola University Maryland, based on the pioneering work of his old dissertation advisor at Columbia University, the

recently deceased Gary Becker (R.I.P.).

Thomas J. DiLorenzo is professor of economics at Loyola College in Maryland and the author of *The Real Lincoln; Lincoln Unmasked: What You're Not Supposed To Know about Dishonest Abe, How Capitalism Saved America, Hamilton's Curse: How Jefferson's Archenemy Betrayed the American Revolution – And What It Means for America Today*. His latest book is *Organized Crime: The Unvarnished Truth About Government*.

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Comment by R. Nelson Nash - *I never tire of reading or listening to the wisdom of my friend, Tom DiLorenzo. He is a National Treasure.*

## **Embracing Economic Liberty: A Commitment to Justice and Mercy (con't)**

By Paul A. Cleveland

### IV. The Parable of the Workers in the Vineyard

*For by grace you have been saved through faith. And this is not your own doing; it is the gift of God, not a result of works, so that no one may boast.*<sup>27</sup>

Jesus told his disciples a parable about a vineyard owner who hired some workers at harvest time to pick his crop. This parable provides an excellent illustration of the connections of justice and mercy. The parable and the context that prompted it are recorded in Matthew 19:16-20:16. A wealthy young man had approached Jesus and asked him a question. He asked Jesus what good thing he needed to do to be saved. Jesus responded to the young man's question with a question of his own. He asked the young man why he was asking Him about what is good since the Scriptures teach that only God is good. The question seems strange at first glance, but it is relevant. Jesus wanted to clarify who it was that the young man was talking to. Since Jesus was in fact God incarnate,

the young man was asking God what good thing he needed to do to earn eternal life.

Having clarified this, Jesus then moved on to address the question by telling the young man that he must keep God's commandments. In response, the man then asked which ones. Jesus answered by immediately moving to the second half of the Decalogue dealing with interpersonal relationships prohibiting murder, theft, lying, adultery, and respecting legitimate authority. The young man had a high view of himself. He believed that he had always treated people justly in every respect so he asked if there was anything else he needed to do. Jesus then jumped to the top of the list of the Ten Commandments. As God incarnate, Jesus could command the young man to do anything and if he was to keep the commandment he would have to obey. So Jesus told him to sell everything he owned, to give away the proceeds to the poor, and to come follow Him. As you know, the young man could not bring himself to do that and so left the scene quiet dejected.

Jesus disciples had stood by watching this interchange and were astonished by Jesus response about selling everything. They evidently thought immediately about themselves for they wondered who could be saved. No doubt Peter thought about his home in Capernaum that they stayed at a time or two. He had not sold it. He probably also thought about his fishing boat. Likewise, James and John no doubt held an interest in their family's fishing business and likely received funds on a regular basis from it. They had not sold this interest. Moreover, to own such fishing boats in that day would have put them in at least the upper middle class. While they were indeed following Jesus, they had not sold everything to do so. But Peter, being the bold one, appealed to his own actions proclaiming to have actually left everything to follow Jesus. They had not gotten the message yet.

Realizing their failure to rightly discern the gospel and Jesus purpose, He increased their anxiety by telling the disciples that it is easier for a camel to go through the eye of a needle than it is for a rich man to enter God's Kingdom. No doubt, the disciples were more uncomfortable than ever because they

were still looking at the matter the wrong way. It was at this point that Jesus told them the parable of the workers in the vineyard. It is a familiar parable. The vineyard owner recruited workers to harvest his grapes throughout the day. He initially found workers early in the day and agreed to pay them a day's wage for their labor services. Likewise, again and again he went out to find other workers telling them that he's was willing to pay laborers at the rate of the going day's wage. There should be no doubt that these workers fully expected to be paid some fraction of the day's wage depending on when they began working in the owner's vineyard. However, at the end of the day the owner paid everyone a full day's wage. To be sure, if you had only worked part of the day, but still received a full day's pay you would know that you got more than you deserved. But, if you worked all day and only received what you bargained for then you only received what you justly deserved. This parable is about justice and mercy. Some people received mercy and grace while others received only justice.

The whole point of the parable was to instruct the disciples that there is nothing that they could do to merit God's favor. Moreover, if they thought that they could, like the wealthy young man thought he could, then they were destined to damnation and would get just what they deserved. Fortunately, that was not going to be the case for them because Jesus was going to earn a righteous standing before God the Father for them and pay the price for their sin by His atoning sacrifice on the cross. That was and is the Christian message of good news. That was something they did not deserve and something we do not deserve. If anyone thinks he is rich in his own righteousness, then he has either too low a view of what righteousness requires or too high a view of his own performance. Either way, God's condemnation is justified.

One important point to note in the parable that is relevant to our discussion here is that the choice to show mercy to some and not to others rested with the gift giver and not the gift receiver. Charity is always a voluntary act on the part of the giver. It cannot be otherwise. Jesus made that perfectly clear when he ended His story by pointing out the complaints



against the vineyard owner made by those who only received the agreed to wage. In response, the owner simply replied that he had the right to be generous to whomever he chose because he was giving away what was his to give. Thus, in regards to the whole concept of economic charity, it must remain in the realm of individual choice. For those who do put their trust and faith in Christ's atonement for their sin, God does indeed call them to practice charity towards others in this world as an act of faith. This activity becomes a natural response of that kind of faith itself.

This fact about the nature of true charity has been increasingly lost in Western culture as the social reform movement has spread. In his book, *The Flight from Reality*, Clarence Carson examined the nature of this movement<sup>28</sup>. The fundamental assumption of the reformers is that social cohesion can best be accomplished by legal means. In fact, the term social justice was and remains a call for government action. Thus, the movement was and is based on a utopian vision. In the United States the most common label the reformers used to refer to themselves was to call themselves progressives, though they have also called themselves liberals as well.

The reform movement was primarily inspired by Marxism and other utopian notions that became popular during the nineteenth century. Interestingly, at the root of all socialism is an underlying commitment to naturalism. Naturalists believe that nature is all there is and that the world must be understood as a series of cause and effect relationships with no outside intervention. Even human action is reduced to the level of determinism in the naturalist view. As such it is either atheistic or pantheistic, but cannot be theistic. It must necessarily reject the traditional Christian religion which undergirds Western civilization. Indeed, Marx hated religion and the institutions it spawned. Thus, he hated private property, the division of labor, government, and virtually every aspect of social life that existed within the Christian worldview. Given the strong influence of Hegelian collectivism, he aimed to overthrow it all. As Clarence Carson correctly observed, "The appeal of Marxism lies in the fact that it justifies and sanctifies the release of the

demonic urges in each of us. It justifies and sanctifies hate, envy, the love of power, the bent to destruction, the desire to set everything right (particularly others), and the vague and unfulfilled longing of man."<sup>29</sup>

While the intellectual development of these ideas was laid in the nineteenth century, the political advancement of them took place most aggressively in the twentieth century. Woodrow Wilson was one of the first presidents to do so in the United States. He attacked the U.S. Constitution since it is founded upon natural law principles. Alternatively, social reform embraces legal positivism aimed at transforming society. Thus, Wilson had to ignore or obfuscate the Constitution to promote his reform agenda. He, therefore, rejected the idea that all people are created by God and individually gifted and important. Wilson argued that the Founders were simply ill-informed. He assumed that they held a primitive view of life and could not have known of the new evolutionary view that people are simply animals and part of the herd. As Wilson put it,

The trouble with their theory is that government is not a machine, but a living thing. It falls, not under the theory of the universe, but under the theory of organic life. It is accountable to Darwin, not to Newton. It is modified by its environment, necessitated by its tasks, shaped to its functions by the sheer pressure of life. No living thing can have its organs offset against each other as checks, and live. On the contrary, its life is dependent upon their quick cooperation, their ready response to the commands of instinct and intelligence, their amicable community of purpose. Government is not a body of blind forces; it is a body of men, with highly differentiated functions ... There can be no successful government without the intimate, instinctive co-ordination of the organs of life and action. This is not theory, but fact, and displays its forces as fact, whatever theories may be thrown across its track. Living political constitutions must be Darwinian in structure and in practice ... All that we progressives ask or desire is permission ... to interpret the Constitution according to the Darwinian principle; all they ask is recognition

of the fact that a nation is a living thing and not a machine.<sup>30</sup>

The implications of this statement are profound. In brief, Wilson set aside virtually all political thought associated with the rise of Western civilization. He basically embraced Hegel's dialectic with its focus on the rise of state power to achieve unity. That this sort of thinking is highly arrogant ought to be evident. How is it, after all, that government officials possess the insight to govern when they deny the possibility of such knowledge among ordinary people? Thus, Wilson reduced the natural rights of the individual person to nothing and was attempting to make everyone subservient to government. Simply stated, this is a declaration of war against the individual. It supposes that tyranny and despotism will result in beauty and utopia. It serves today as a rationalization for those with political power to do anything they like as long as they appeal to their conception of the so-called public good.

One of the saddest aspects of the social reform movement is how it has been spread by supposedly Christian churches. Regrettably, those who were at the forefront of this push had to alter the Christian message to do so. They reduced Christianity to a mere call for social change. Essentially, this was and is an effort to baptize Karl Marx and socialism even though socialism cannot be squared with theism. Nevertheless, the view of mankind held by those advocating collectivistic planning is that people are just smart animals needing to be herded in the "right" direction. That this view is essentially a reversion to an older pagan view of life should not be doubted. Indeed, if any concept of God is left, it is a pantheistic view that reduces God to an impersonal force.

The success of the social reformers over the course of the last hundred years or so is due primarily to the spread of irrationality among the populace. There are so many contradictions found in the naturalist worldview that its advocates needed to inhibit people's ability to think systematically if they were to advance their cause. Toward this end, the public school curriculum was significantly altered and gutted of its focus on developing the young student's clarity of thought. As a

result, more and more Americans have shed the reality that there are fixed principles which establish limits to successful human action. Without such principles they are easily influenced by the irrationality of the reformers. More and more, they simply accept the premise that society, as well as individual people, can be shaped and reshaped in an endless variety of ways without doing any damage. They no longer seem to recognize that ultimate reality by its very nature is unchanging. Therefore, they are increasingly willing to abandon the truths of the ages for the latest political fashion. As such, we are pestered by an endless series of utopian plans calling for greater government power and control to address the ills of humanity. One of the biggest lies in the modern age is that human rights extend to the consumption of certain economic goods such as education and health care. Since scarcity is a fact of life, such an argument must mean that some people have the right to force other people to bear the cost for what they wish to consume.

Social engineers believe that they are capable of seeing above the crowd. They believe that they are able to remake society by implementing their plans by governmental means. To do so, however, is to reduce the value of any particular human life to statistic. Such beliefs deserve nothing less than our full and complete condemnation for being the pure evil that they really are. To reach this conclusion, one simply needs to look at the experience of socialism over the course of the last hundred years or so. The history speaks volumes as it demonstrates the devastation that has been caused by such thinking. Instead of heaven on earth, the self-proclaimed gods of social reform have brought about only hardship, suffering, and the deaths of over a hundred million human beings. Yet, despite the mounting evidence that their reforms are failures, reformers continue to pursue their utopias undaunted by the facts.

Nobel Prize winning economist, Friedrich Hayek, understood the danger of social reformation well. In his book, *The Fatal Conceit: The Errors of Socialism*, Hayek vigorously attacked the idea that human nature could be remade and human institutions restructured for utopian purposes. In destroying the reformer's

argument he stated:

So, priding itself on having built its world as if it had designed it, and blaming itself for not having designed it better, humankind is now to set out to do just that. The aim of socialism is no less than to effect a complete redesigning of our traditional morals, law, and language, and on this basis to stamp out the old order and the supposedly inexorable, unjustifiable conditions that prevent the institution of reason, fulfillment, true freedom, and justice.

Or as the French statesman, Frederic Bastiat wrote:

[Socialist writers] base their various theories upon one common hypothesis: They divide mankind into two parts. People in general ...form the first group. The writer, all alone, forms the second and most important group. Surely this is the weirdest and most conceited notion that ever entered a human brain!

In fact, these writers on public affairs begin by supposing that people have within themselves no means of discernment; no motivation to action. The writers assume that people are inert matter, passive particles, motionless atoms, at best a kind of vegetation indifferent to its own manner of existence. They assume that people are susceptible to being shaped--by the will and hand of another person--into an infinite variety of forms, more or less symmetrical, artistic, and perfected.

Moreover, not one of these writers on governmental affairs hesitates to imagine himself ...as this will and hand, this universal motivating force, this creative power whose sublime mission is to mold these scattered materials ...into a society ...

Socialists look upon people as raw material to be formed into social combinations...Moreover, even where they have consented to recognize a principle of action in the heart of man--and a principle of discernment in man's intellect--they have considered these gifts from God to be fatal gifts. They have thought that persons, under the impulse of these two gifts, would fatally tend to

ruin themselves. They assume that if the legislators left persons free to follow their own inclinations, they would arrive at atheism instead of religion, ignorance instead of knowledge, poverty instead of production and exchange.

Currently, the only beneficial reform would be to restore the law to its proper domain and to depose the reformers of their power. As John W. Gardner observed, "The society which scorns excellence in plumbing as a humble activity and tolerates shoddiness in philosophy because it is an exalted activity will have neither good plumbing nor good philosophy: neither its pipes nor its theories will hold water." If the power of government is restricted to punishing the worst cases of wrongdoing, then a degree of justice would prevail. The result would be a community where greater peace and order is maintained. Frederic Bastiat understood this correctly when he admonished the reformers of his day, "Ah, you miserable creatures! You who think that you are so great! You who judge humanity to be so small! You wish to reform everything! Why don't you reform yourselves? That task would be sufficient enough."

Notes:

<sup>27</sup>Ephesians 2:8-9.

<sup>28</sup>Carson, Clarence B., *The Flight from Reality*, (The Foundation for Economic Education: Irvington, NY, 1969).

<sup>29</sup>Carson, Clarence B., *The World in the Grip of an Idea*, (Arlington House Publishers: New Rochelle, NY, 1979) p. 27.

<sup>30</sup>Woodrow Wilson, "What is Progress?", *American Progressivism*, edited by Pestritto and Atto, (Lexington Books: Langham, MD, 2008) pp. 50-51.

Friedrich A. Hayek, *The Fatal Conceit: The Errors of Socialism*, edited by W. W. Bartley III, The University of Chicago Press: Chicago, 1988, p.67.

Ibid, p. 67.

Frederic Bastiat, *The Law*, pp. 33-35.

Ibid p.55.

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