# LMR

BUILDING THE 10%

MAY • 2020

## PULSE ON THE MARKET

Explosion in Treasury Debt
China Calls Debt Bluff
Pork Chops vs. People?

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*by Robert P. Murphy*

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BY L. CARLOS LARA

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# ABOUT LARA & MURPHY

L. CARLOS LARA is CEO of United Services and Trust Corporation, a consulting firm specializing in in business advisory services with a primary focus on working with companies in financial crisis. His background in capital formation and business rehabilitation makes him a regular speaker at credit and business conferences.

In 2010 he co-authored the highly acclaimed book, *How Privatized Banking Really Works* with economist Robert P. Murphy.

He is a co-creator of the IBC Practitioner Program for financial professionals and sits on the board of the Nelson Nash Institute.

ROBERT P. MURPHY is Senior Fellow with the Mises Institute. He is co-author of *How Privatized Banking Really Works.* He is the author of *Choice: Cooperation, Enterprise, and Human Action* (Independent Institute 2015) and co-host with Tom Woods of the popular podcast Contra Krugman.

Murphy has a Ph.D. in economics from New York University. After spending three years teaching at Hillsdale College, he went into the financial sector working for Laffer Associates. With Nelson Nash, Carlos Lara, and David Stearns, Murphy is co-developer of the IBC Practitioner Program.

**LMR Editor in Chief: L. Carlos Lara**
**LMR Executive Director: Dr. Robert P. Murphy**
**Managing Editor: Anne B. Lara**

For Information About Advertising and Other Questions,
Contact: rpm@ConsultingByRPM.com

*"In high school, as was custom, I had chosen a verse by Virgil to be my motto: "Tu ne cede malis sed contra audentior ito." Do not give in to evil, but proceed ever more boldly against it."*

*— Ludwig von Mises*

These are difficult times for Americans and indeed people around the world. Not only has the coronavirus killed hundreds of thousands and—in conjunction with (counterproductive) political interventions—brought the global economy to its knees, but it has all happened *so remarkably fast*. It was only three months ago when most of us didn't really know much about the "novel coronavirus" at all.

In such an environment, it's very helpful to review the stirring words of the great Austrian economist Ludwig von Mises. After the above remarks he went on to write:

*"I recalled these words during the darkest hours of the [first world] war. Again and again I had met with situations from which rational deliberation found no means of escape; but then the unexpected intervened, and with it came salvation. I would not lose courage even now. I wanted to do everything an economist could do. I would not tire in saying what I knew to be true."*

Likewise, we urge our readers to keep the faith. Even though things may look hopeless for some of you, we must all persist in doing what we believe is right. Whether you believe in the grace of God or simple good luck, we mustn't give up. In retrospect, we usually realize that things were not as bad as they seemed at the time, and there were other forces at work coming to the rescue.

Sincerely,

Carlos and Bob

# PULSE ON THE MARKET

## Explosion in Treasury Debt

A CBO report issued on April 24 (available at: https://www.cbo.gov/publication/56335)—meaning it is already out of date—outlines the incredible surge in projected deficit spending due to the coronavirus panic. The combination of increased federal spending and reduced revenues will push the federal debt-to-GDP ratio up to a whopping 101 percent by the end of this fiscal year (on October 1), and 108 percent by the end of fiscal year 2021. The budget deficit *for this year alone* was projected at $3.7 trillion, with another deficit of $2.1 trillion in the following year.

The CBO report also projects that real GDP in the second quarter will have dropped by *an annual rate of 40 percent*. Because the CBO analysts attribute the unprecedented crash in output to the coronavirus lockdowns, they also forecast a sharp rebound in the third and fourth quarters, so that overall 2020 real GDP will "only" be down 5.6 percent. (For some perspective, in 2009 real GDP was only 2.9 percent lower than it had been in 2008.) Yet this is actually optimistic in our book; we don't expect a quick snapback in economic output, even as the authorities ease restrictions.

## China Calls Debt Bluff

According to an article in the South China Morning Post (available at: https://www.scmp.com/economy/china-economy/article/3083100/coronavirus-china-could-cut-us-debt-holdings-response-white), Chinese officials have indicated that they may reduce their holdings of U.S. Treasury debt in response to discussions among certain White House officials that the U.S. government would cancel some or all of the $1.1 trillion debt owed to China because of its role in unleashing the coronavirus.

This is a subtle issue from a free-market economics perspective. Most commentators consider the proposal ludicrous, especially when—as we documented in the previous blurb—Uncle Sam is in the midst of piling on massive amounts of new debt.

At the same time, there is a healthy tradition among libertarian economists of recommending outright debt repudiation. Yes, it would lead to turmoil in the financial markets if the Treasury


suddenly reneged on its obligations, but on the other hand it would relieve taxpayers of having money taken coercively from them, in order to repay borrowers who *voluntarily* lent money to Uncle Sam. Furthermore, this school of thought argues that the loss in credibility of the Treasury would be a good thing, constraining its ability to borrow in the future.

So although the threat to cancel some of the Treasury debt owned to China is probably a political stunt designed to curry favor among Trump's base, it's actually not as outlandish an idea as the critics allege. However, if the Treasury ever *were* to go down this route, it would make more sense to do so in an orderly way, giving a "haircut" to all of its outstanding securities, not simply those owned by a particular government or nation. After all, what would stop those bondholders from selling to others before the sanction kicked in? The whole process would get messy.

## Pork Chops vs People?

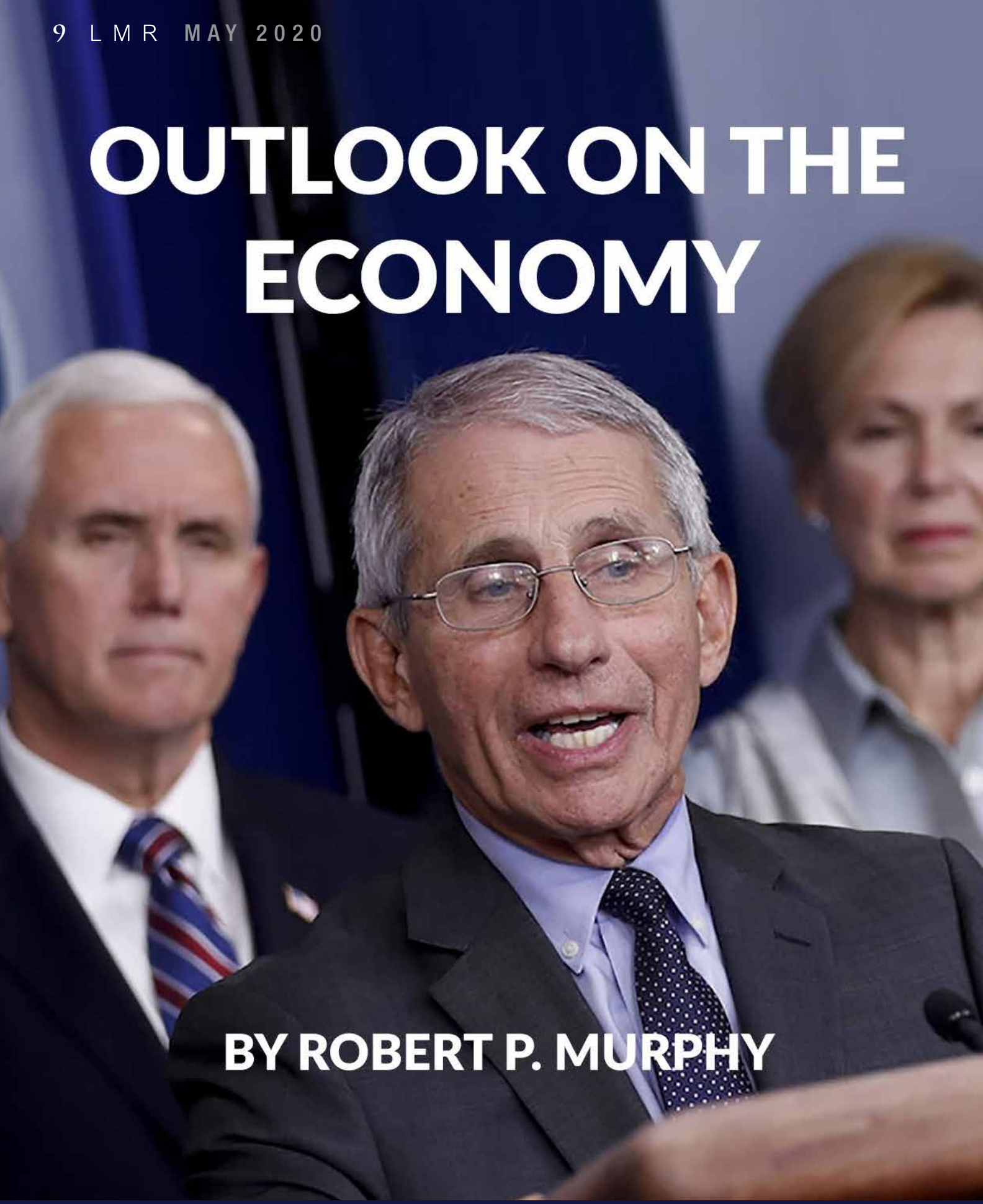
A May 10 article in the New York Times (available at: https://www.nytimes.com/2020/05/10/business/economy/coronavirus-tyson-plant-iowa.html) criticizes the Trump Administration's executive order reopening meat processing plants across the country. The article reports: *"As meat shortages hit grocery stores and fast-food restaurants, political pressure built to get the dozens of plants across the country that had shut down because of virus outbreaks up and running again. After an executive order by President Trump declared the meat supply "critical infrastructure"* ***and shielded the companies from certain liability****, Tyson reopened its Waterloo facility..."*

The part we put in bold is significant. Some of the early coverage of Trump's executive order made it sound as if he were literally forcing workers to march into meatpacking plants against their will—much as soldiers were drafted during the Vietnam War. If that *had* been true, it would have been immoral and economically inefficient: If society really wants to use the federal government to get workers back into plants, then the government could offer bonus pay so that all taxpayers share in the burden, rather than having the brunt of it fall on the unwilling workers. (This is the same argument economists use in favor of an all-volunteer military, rather than a draft.)

# PULSE ON THE MARKET

However, in light of the NYT article and others like it, what appears to have actually happened is that the Trump Administration gave Tyson and other companies the legal ability to replace workers who didn't want to show up due to safety concerns, without fear of being sued for maintaining an unsafe work environment. This is a gray area because what constitutes "safe" has recently undergone a dramatic transformation, but in any event it is much more reasonable than if the federal government had literally forced workers back into the plants.

# OUTLOOK ON THE ECONOMY



BY ROBERT P. MURPHY

As the entire world reels from the impact of the coronavirus pandemic and the (often misguided) policies that governments have implemented in reaction to it, people are naturally very alarmed about what the future holds. This will of course be a recurring theme in our articles here at the *LMR*.

In the present article, I will first explain why readers should at least prepare for the serious possibility of a "second wave," and then I will outline some of the major challenges to our already-fragile economy. My focus will be on the United States, but much of what I say will be relevant to readers in all industrialized countries.

## The Possibility of a "Second Wave"

A large segment of Americans—including especially President Trump—understandably want to believe that the worst of the medical crisis is behind us. Furthermore, there is a large chorus of cynics pointing to the alarmist predictions pushed by the corporate media. For example, the initial model projections of how many total deaths would occur were in some cases far too high, and/or the media did not give the proper context to whether a certain projection was merely a "worst-case scenario" with no countermeasures.

Furthermore, many critics made apocalyptic warnings about the fate of Georgia and other jurisdictions when they reopened their economies. As of this writing, these doomsayers have been proven wrong. All of this experience has confirmed for many Americans that the panic over the coronavirus was largely a media invention, with the goal of hurting Trump's chances at re-election. Some cynics go far as to refer to the entire episode as a "hoax."

Even though the corporate media and certain Democratic politicians have behaved badly, that doesn't make a contagious virus disappear. I am well aware of the pitfalls with the official death counts, but even so,

**Even though the corporate media and certain Democratic politicians have behaved badly, that doesn't make a contagious virus disappear.**

several tens of thousands of Americans have died in a few months from something that came out of the blue, and the experience in different countries shows that human behavior presumably has *something* to do with the impact of COVID-19. It isn't mere anti-Trump fearmongering to try to understand what happened, and how humanity can protect itself better as we move forward.

In this article, the modest point I wish to make is that there is a very real possibility of a *second wave* of infections and death striking in the fall, even if the virus activity seems to disappear over the summer. What's worse, this second wave could be far worse than what we just experienced.

At first this seems counterintuitive: Why would the country be *more* vulnerable to the coronavirus in the fall, when (a) a chunk of the population has already had it, and would therefore probably be immune and (b) our medical system is better prepared to give health care workers adequate protective equipment and to treat patients suffering from COVID-19?

Even though it seems unlikely, many health experts agree that a deadlier second wave of the virus is indeed a serious possibility. For example, this is what happened during the infamous 1918 flu pandemic, as Figure 1 indicates.

As Figure 1 indicates, in July 1918 the first wave of the global flu pandemic peaked in the United States at around 5 deaths per 1,000 people, and then fell sharply. But starting in October, the death rate suddenly began skyrocketing, and peaked at a rate about *five times* as high.

**Even though it seems unlikely, many health experts agree that a deadlier second wave of the virus is indeed a serious possibility.**

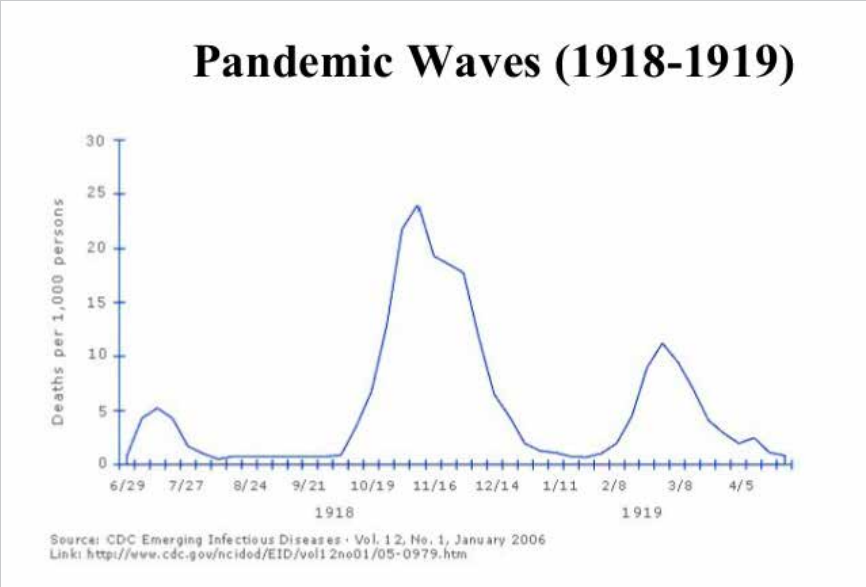



**Figure 1. SOURCE of chart: Francois Balloux[1]**

We see similar patterns for other flu pandemics, and in countries both in the Northern and Southern hemispheres. (Because it hits both areas, the pattern isn't a simple result of colder weather making everyone stay indoors and breathing each other's air.)

I present this information not as a formal prediction, of course—I'm an economist, not an epidemiologist—but I want the *LMR* readers to understand why so many medical experts are warning about a second wave. If things turn out well, and coronavirus cases recede into the background over this coming summer, that doesn't *guarantee* that we're out of the woods. To repeat, that is the exact pattern that has occurred in past flu pandemics, to be followed by a second wave that can often be much deadlier than the first.

**For those readers interested in reading more on these issues, I refer you to the 2017 book Deadliest Enemy: Our War Against Killer Germs, by Michael Osterholm and Mark Olshaker.**

## Osterholm's Tabletop Exercise

For those readers interested in reading more on these issues, I refer you to the 2017 book *Deadliest Enemy: Our War Against Killer Germs,* by Michael Osterholm and Mark Olshaker.

Some readers may already be familiar with Osterholm, as he has been doing extensive media since the coronavirus panic broke, including popular podcasts like the Joe Rogan Experience, as well as conventional media hits on the major news shows. Among other titles, Osterholm is the founder and director of the Center for Infectious Disease Research and Policy (CIDRAP) at the University of Minnesota.[2] I would encourage interested readers to visit their website and listen to Osterholm's weekly podcast and/or peruse the center's reports.

The reason I take Osterholm so seriously is that in his 2017 book, he has a chapter laying out a "tabletop exercise" in which he walks through a hypothetical global flu pandemic. Although our current pandemic is due to a coronavirus (not influenza), otherwise the similarities are downright chilling. Let me reproduce a few passages below from the

book, to show readers how prescient Osterholm's warning was. Note that for readability, Osterholm presents his tabletop exercise in the present tense, as if he is narrating unfolding events:

*"The increasingly nervous experts know that you don't have to touch a sick person to contract seasonal flu as you would have to with Ebola… All you need for transmission is to have someone breathe on you—in a shopping mall, an airplane, a subway, or even a hospital emergency room."* (p. 272)

*"By now, the outbreak is universally referred to as the 'Shanghai flu,' except in China, where it is referred to as the 'Western flu.' The WHO convenes a group of influenza experts via conference call…the committee strongly urges the director-general of the WHO to declare the H7N9 emerging pandemic a Public Health Emergency of International Concern."* (p. 272)

*"Now spot shortages appear in various industries, particularly those impacted by a large disruption in manufacturing in China…Beef prices skyrocket as the supplies tighten."* (p. 274)

*"Most hospitals are running low or have exhausted their supply of N95 respirators needed to protect healthcare workers."* (p. 275)

*"The lead editorial in the next day's Wall Street Journal disagrees with the president…The editorial traces the 50 percent decline in American stocks since the beginning of the pandemic… Retailers and park operators have to lay off large percentages of their already diminished workforce. National unemployment soars above 25 percent…The Federal Reserve lowers the federal funds rate to zero."* (p. 277)

I will stop my excerpting at this point, since I've presumably made my point. If you obtain Osterholm's book, you will see that there were many details that don't match. However, I think I've provided enough of the overlap to show that this is a man worth taking seriously.

And when it comes to Osterholm's views on the coronavirus pandemic, he has been saying for weeks that the worst is still ahead of us. In his view, it is too late to snuff out the virus. Instead, Osterholm thinks it will continue to spread—perhaps in waves, or perhaps in a steady "slow burn"—until the population reaches "herd immunity" when at least 60 percent of the country has been infected, or has received a vaccine. Osterholm is extremely concerned that if we have a quiet summer, Americans will be lulled into

**As you can see in Figure 2, the Fed has continued to purchase new assets at a literally unprecedented rate—about $3 trillion worth in three months—roughly *triple* what it did even in the immediate wake of the 2008 financial crisis.**

complacency and then might be shocked by a second wave striking in the fall.

To reiterate, I am not here going on record saying I agree with Osterholm. For example, when he talks about government policies, it is clear to me that he is not familiar with standard free-market literature. Furthermore, I heard Osterholm say in one interview that he thought the governor's decision to open up Georgia so early would lead to a "train wreck."

Nonetheless, in the interest of making sure *LMR* readers are aware of the various threats to their financial and medical security, I wanted to highlight Dr. Osterholm and his perspective. Even besides the health aspects, obviously if he is right and a second wave **does** strike later in 2020, this will have profound impacts on the financial sector and the broader economy.

### Various Measures of the Money Stock

In last month's issue of the *LMR*, we showed readers how much the Fed had increased the monetary base through purchasing new assets. In Figure 2 below, I update that picture by showing the most recent snapshot of the Fed's balance sheet.

As you can see in Figure 2, the Fed has continued to purchase new assets at a literally unprecedented rate—about $3 trillion worth in three months—roughly *triple* what it did even in the immediate wake of the 2008 financial crisis.

Here's another way of comprehending the explosion: As of May 20, 2020, the Fed's balance sheet was 83% larger than it had been on May 20, 2019. (Note that the late 2008


**Figure 2. Total Fed Assets, through May 20, 2020**


**Figure 3. M1 Money Stock, through May 11, 2020**

expansion was higher in percentage terms, even though the dollar amount was only a third as large as our current episode's.)

However, some analysts argue that the "base money" injected by the Fed into the financial system doesn't really count because it's not directly held by the public. (I personally think this is too simplistic, but put my quibbles aside.) Okay, I am also happy to show in Figure 3 above what's recently happened with the M1 money stock. This counts the money *held by the public* in the form of bank checking account balances and actual paper currency in circulation.

As Figure 3 shows, the quantity of money "held by the public" has risen an astonishing *$1 trillion* in about two months. Notice also that this recent spike dwarfs all previous expansions in M1, including the 2008 episode (which barely shows up on the graph in Figure 3).

To get an even better appreciation of the recent increase in money held by the public, in Figure 4 I show the *12-month percentage growth* in M1.


**Figure 4. Twelve-Month Percentage Change in M1 Money Stock ("Money Held By the Public")**

**Carlos and I have been recommending (since our 2016 video presentation) that in addition to practicing IBC and accumulating a month's worth of actual currency, individuals also acquire physical gold or silver as protection.**

As Figure 4 reveals, even in percentage terms, the recent surge in money held by the public is unprecedented in modern times. (The St. Louis Fed's database doesn't go back to the 1930s; there were a few years after FDR took the dollar off gold where M1 may have had comparable growth rates.)

## Inflation and IBC

I don't want readers to misinterpret the above charts. I am *not* saying that we should expect significant consumer price inflation in the near future. Remember what happened after the first two rounds of QE: Many of us (including me!) were very concerned about impending rises in the prices of standard consumer items, and that didn't pan out nearly to the extent that some of us feared. The whole episode was used by Keynesians to dismiss us as fearmongers who didn't understand modern economics.

Now it's true, this time around some things really *are* different. In particular, we have a massive bottleneck in production because of the coronavirus and associated lockdowns. The standard recipe for (price) inflation is "too much money chasing too few goods." Right now we have a massive surge in money and a drastic reduction in goods.

Yet even so, because of the panic, *the demand to hold U.S. dollars has also skyrocketed.* Put another way, if the Fed and banking system *hadn't* expanded the way we've illustrated in the figures above, then most consumer prices would have *crashed* by now, as households hunkered down and built up their cash reserves. So if one prefers, we could say that we *have* seen massive price inflation, but it's relative to the counterfactual of a large *drop* in CPI that otherwise would have occurred.

Regarding the Infinite Banking Concept (IBC), let me give my stock reply when people worry about inflation: Generally speaking, the risk of inflation is that your life insurance cash values won't have as much purchasing power as you originally had planned.

In other words, the life insurance company will be able to hold up its end of the bargain, it's just that the amount of dollars under your control won't buy as much in a high-price-inflation scenario. This is why Carlos and I have been recommending (since our 2016 video presentation ) that in addition to practicing IBC and accumulating a month's worth of actual currency, individuals also acquire physical gold or silver as protection.

**This has led to the ironic situation where millions of laid-off workers are literally getting more (especially after-tax) by staying home than by returning to employment.**

## Monetary Inflation Will Still Disrupt Production

From the standpoint of Austrian business cycle theory, rising or falling prices isn't really the issue. Indeed, old school monetarists such as Irving Fisher thought the Fed did a great job during the 1920s, because it kept consumer prices roughly stable. Yet Austrians like Mises and Hayek knew that the Fed had actually fostered a giant asset bubble, by injecting money into the financial system and pushing interest rates down to artificially low levels. In other words, the genuine productivity gains under Calvin Coolidge in the 1920s should have produced *falling* consumer prices, but these were overrun by the Fed's inflation.

Likewise in our times, the massive increases in the money stock will distort credit markets and investment decisions. When the crisis hit back in March, if consumer prices were "supposed" to fall, and various short-term interest rates were "supposed" to rise, the Fed prevented this necessary response by intervening.

Consider an analogy: The progressive critics of Trump are upset that he didn't act earlier during the onset of the pandemic. Trump tried to maintain the illusion that "business as usual" would work, when what was needed—so the critics allege—was a drastic change in Americans' behavior. It was foolish, they say, to continue acting like everything was fine, as the evidence of a massive problem mounted.

This is similar to what the Austrians say about monetary policy and the financial system. It is obvious that there were major imbalances in the system in March. Rather than letting prices accurately reveal the new realities, and consequently cause major adjustments, the Fed has done everything in its power to quell panic and keep investors docile. That is the wrong strategy, if indeed there were major structural problems.

## Employment

Currently the official unemployment rate (for April) is above 14%, but economists estimate that the true rate is closer to 25%. These are Great Depression levels.

What's worse, because of the perverse effects of the so-called CARES Act, we can expect high unemployment at least through the end of July, even if the political lockdowns are lifted. This is because the federal government is currently supplementing state-based unemployment insurance payments by a flat $600 per week. This has led to the ironic situation where millions of laid-off workers are literally getting more (especially after-tax) by staying home than by returning to employment.

Defenders of the lockdowns argue that this is a *good* thing, because they want workers to stay home and practice physical distancing until health officials get more testing and contact tracing programs up and running. Whether we agree or not, it is undeniable that the labor market will remain depressed at least through the end of July, when the current federal unemployment checks stop.

## Conclusion

In this article, I haven't even touched on the huge increase in the federal debt—we covered that earlier in this issue in the Pulse on the Market section. Suffice it to say, from an Austrian perspective, the Fed and the Treasury have pursued exactly the *wrong* policies to deal with the coronavirus.

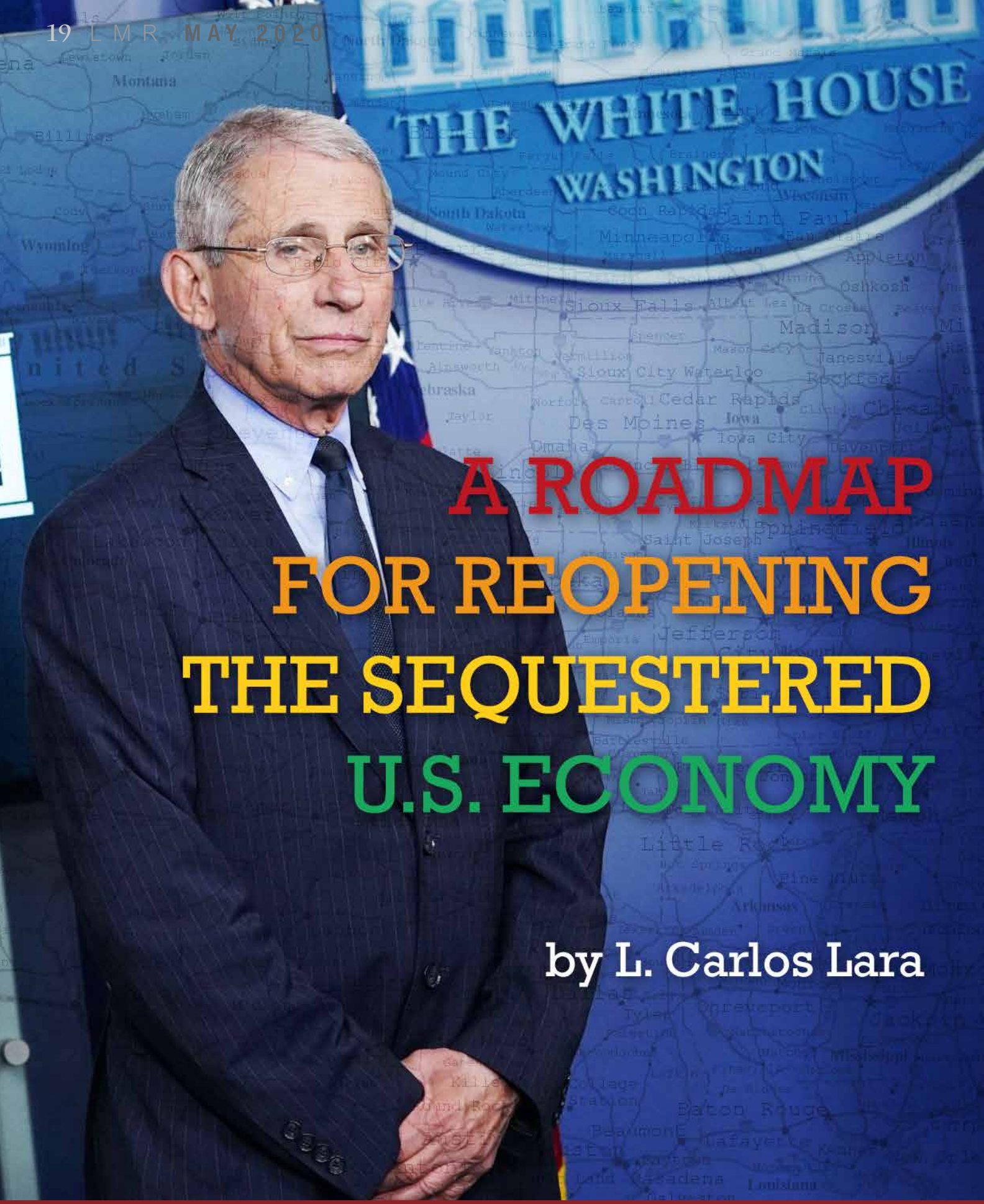
Long-time readers know that I was warning of a recession and stock market crash beginning this summer *anyway,* even before we knew about the coronavirus. This is why I am very alarmed about the prospects for the future. If the economy had been on the ropes *already,* then adding on a global pandemic, with its death toll, supply chain disruptions, and labor force lockdown—and then further adding on massive monetary inflation and Treasury debt—these are the ingredients for a bleak future indeed.

In future issues I will do my best to use incoming information to provide more specific guidance and insight. At this point, I can summarize by saying that most analysts are still too optimistic about the short- and medium-term prospects for the U.S. (and global) economy.

I urge *LMR* readers to adopt a defensive posture if they haven't already, and to review the recommendations Carlos and I gave back in 2016. (It's still featured at our main page, www.Lara-Murphy.com, or you can follow the exact URL in the Endnotes below.[3]) We still stand behind that three-pronged strategy we began publicizing in the fall of 2016. It has done very well so far—as grateful readers have told us over email—and we think it will perform well over the coming years.

References

1. 1918-1919 pandemic chart taken from: https://twitter.com/BallouxFrancois/status/1238837162340233216/photo/1
2. See CIDRAP's website at: https://www.cidrap.umn.edu/
3. See our 2016 video, "How to Weather the Coming Financial Storms," available at: https://lara-murphy.com/video0916/




# A ROADMAP FOR REOPENING THE SEQUESTERED U.S. ECONOMY

by L. Carlos Lara

Experts estimate that we will not have a COVID-19 vaccine until 2021 at the earliest. For the foreseeable future, living with COVID-19 is our new "normal" and one of the main reasons why all businesses in our cities, except those considered essential (groceries, pharmacies, federal and state offices, etc.), have been ordered to close their locations.

In the city in which I reside, Nashville Tennessee, the "safer at home order" began on March 22, 2020 and it was on that very same day that our city mayor, under the auspices of the Governor of Tennessee, released a preliminary ROADMAP FOR REOPENING NASHVILLE. Even so, the quarantine would remain in place until May 11.

The most significant aspect of this "Roadmap" is to recognize that reopening Nashville businesses will be done in very closely monitored "phases" that must sustain declining trends in new COVID-19 cases for at least 14 days before it will be allowed to go to the next "phase." Failure to reach the 14 days with the desired results will extend the lockdown provisions of "phase one." There are a total of 4 "phases."

Phase one officially began May 11th and shopping traffic on the streets has been dismal. Fear of the virus pandemic continues to keep people away from the downtown area shops, restaurants, hotels, and night-life attractions. Furthermore, phase one does not allow for critical ambiance activities such as "live music" at any of the downtown area stores, and all of the virus social distancing rules are strictly enforced. Even if "phase one" is executed perfectly for the first 14 days required, getting to "phase 4" which removes all the business restrictions, and if executed perfectly for its entire 14-day requirement,


Fear of the virus pandemic continues to keep people away from the downtown area shops, restaurants, hotels, and night-life attractions.

will take 56 days or until July, 2020.

In effect, what is generally recognized as Nashville's primary tourist and selling season has ended suddenly and abruptly in a matter of two months. Many of the businesses in the downtown area of Nashville have filed for bankruptcy and abandoned their highly expensive leased locations. Other high travel destinations such as Hawaii and Las Vegas, have also experienced similar financial problems to those of Nashville and have especially spiked in the month of May, and will most likely do so again in June and July. With now 33 million Americans having filed unemployment claims and the airline industry in serious trouble, 2020 is quickly stacking up as a year for national catastrophic losses.

**Downsizing Business Has Become The New Normal**

Nashville is also the home of one of my oldest business clients as well as dearest friends, Ed and Karen Smith. Of course, neither of us can believe what has happened to Nashville in the last two months, much less the rest of the entire world since the Corona virus pandemic.

We became acquainted with each other 22 years ago under similar unusual circumstances. As a workout specialist and "trustee," I was introduced to the Smith's by their top five major creditors for purposes of establishing a "Merchandise Trust Agreement" between us in order to resolve their, and the Smith's, financial difficulties and indebtedness.

Please keep in mind that these agreements were signed and executed during a period of financial instability. In fact, during this period of 1989, the entire western and apparel industry of which they were all a part, was also in financial turmoil. Over this 22-year period of time the Smiths have become very successful Nashville business owners and all of their suppliers have been paid in full. They now own most of the real estate in which they operate their businesses. Financially, Ed and Karen Smith's enterprise is currently profitable and sound.

Nevertheless, due to Nashville's ensuing circumstances, the Smiths plan to downsize their entire operation to one or two stores beginning immediately, but will continue to remain open and operational. Due to their business acumen, I am confident they will continue to remain a successful enterprise.


I only wish I could relay the same type of happy news to the millions of many national businesses that have already filed for bankruptcy with no hope of recovery.

The Merchandise Trust Agreements, on the other hand, have fully completed their future need and will disband.

I only wish I could relay the same type of happy news to the millions of many national businesses that have already filed for bankruptcy with no hope of recovery. Unfortunately, this problem is only just beginning for countless others.

the Federal Reserve has engaged in unprecedented actions, pumping $2.5 trillion into the financial system in just two months.

Meanwhile the hemorrhaging has already started. Besides the stock market's complete collapse, real-estate, which generally moves much slower, is already at a standstill. As always under these austere measures, the small wage earners, those individuals that basically

The prestigious brick and mortar stores that have been virtually hanging on by their nails, like J.C. Penney, that should have died years ago, finally gave up the ghost and filed for Chapter-XI Bankruptcy.

**Sudden Chaos of the Markets and Major Industries**

In the wake of the coronavirus pandemic, it's as though all hell has broken loose. The sudden chaos of the stock market and the collapse of major industries have made it difficult to capture the impending results on the economy in real-time. Plus, people have been sequestered in their homes and have not been out to meet and talk with each other, consequently they have not realized how much their world has changed. Meanwhile live from paycheck to paycheck, have already lost their jobs in record numbers. These are the results of the mess this financial crash is spreading everywhere.

So too, the prestigious brick and mortar stores that have been virtually hanging on by their nails, like J.C. Penney, that should have died years ago, finally gave up the ghost and filed for Chapter-XI Bankruptcy. At this juncture it will be a quick process.

Also, the love of my life retailer, Neiman

Marcus—I say that because I trained under Stanley Marcus as a college student—it too has filed for Chapter XI Bankruptcy. Lord & Taylor and J. Crew are also on the list as having filed. Nordstrom and Macy's, while still alive and breathing for now, have shuttered hundreds of stores. And this is all just the beginning of more to come.

In a special 60 MINUTES news segment Scott Pelley of CBS news asked Jerome Powell, Chairman of the Federal Reserve an important question. Pelley asked, "When does the economy recover"? Powell said that it was *"very difficult to answer because it really depends to a large degree, on what happens to the coronavirus. The sooner we get the virus under control, the sooner businesses can recover. And more important than that, the sooner people can become confident that they can resume certain kinds of activity. Going out, going to restaurants, traveling, flying on planes, those sorts of things. So that's really going to tell us when the economy can recover."*

Again, Pelley asked, "What economic realities do the American people need to be prepared for?" Powell's response was more realistic than even he realizes. *"This is a time of great suffering and difficulty. And it's come on us so quickly and with such force, that you really can't put onto words the pain people are feeling and the uncertainty their realizing. And it's going to take a while for us to get back… Twenty million people have lost their jobs…It's women to an extraordinary extent, who were making less than $40,000 per year, almost 40% have lost their jobs in the last month or so. Extraordinary statistic. So that's who's really bearing the brunt of this."*

Although the Chairman of the Federal Reserve answered a lot of questions for Scott Pelley in this lengthy interview, he stayed clear of the coronavirus pandemic, except to blame it for the cause of the current financial crisis. He repeated several times to Pelley that the Federal Reserve had no oversight over it. He was however, quick to receive praise for what the Federal Reserve has done, and done quickly.

In response to a push notification that Pelley had just received on his phone: "Dow tanks more than 500 points in Wall Street sell-off, after Fed chair warns economic recovery will be prolonged and bumpy." To which Pelley exclaimed to Powell, "You


**This particular financial crisis we knew was coming and we also knew that it would be bigger and more catastrophic than the 2008 crisis.**

knew that was coming." And Powell looking rather flattered, simply said: "I've been watching the markets." What? I thought. You have been watching the markets? And, I couldn't help but to laugh out loud.

I am attempting not to minimize the dangers of the virus and the hundreds of thousands of people it has killed, however, in all honesty, Bob and I have been watching the markets for years and I have personally experienced several financial crises myself. But this particular financial crisis we knew was coming and we also knew that it would be bigger and more catastrophic than the 2008 crisis. In fact, we talked about it in detail in September 2016 in our live stream video presentation, "How to Weather the Coming Financial Storms." Furthermore, we were very confident that it would happen this year. Keep in mind that all financial crises are ignited by some catalyst of one kind or another. What we did not know was that a virus pandemic would set this one off.

This is what knowledge of the business cycle teaches you, it's what the Austrian School of Economics teaches you. Unfortunately, Keynesian Economics and the Federal Reserve don't teach you anything no matter how often they watch the markets. They are always the culprits that cause all financial crisis. It's our great hope that people will finally figure this out.

**If the death toll does not subside a state could be forced into a lockdown closed condition once again. This becomes the kiss of death for the economy to recover.**

**State Unemployment for April 2020**

In this section I reproduce some state-based data from the Bureau of Labor Statistics (BLS). Readers can find it at: https://www.bls.gov/news.release/laus.nr0.htm

*"Unemployment rates were higher in April in all 50 states and the District of Columbia, the U.S. Bureau of Labor Statistics reported today. Similarly, all 50 states and the District had jobless rate increases from a year earlier. The national unemployment rate rose by 10.3 percentage points over the month to 14.7 percent and was 11.1 points higher than in April 2019."* This was reported May 22, 2020 by an economic news release put out by the U.S. Bureau of Labor Statistics.

Nevada had the highest unemployment rate in April at 28.2 percent. Hawaii was at 22.3 percent. Nevada exceeded its high by 10.00. Connecticut had the lowest unemployment rate at 7.9 percent. As has been made clear already, these are high tourist cities that have been seriously affected by the coronavirus.

Once again, these are all statistics that have the latest available numbers and are depicting the effects of the virus pandemic. They will jump again next month and pos-

**Table A. States with new series high unemployment rates, April 2020, seasonally adjusted (1)**

| State | Rate (p) | State | Rate (p) | State | Rate (p) |
|---|---|---|---|---|---|
| Alaska | 12.9 | Maine | 10.6 | Oklahoma | 13.7 |
| Arizona | 12.6 | Maryland | 9.9 | Oregon | 14.2 |
| California | 15.5 | Massachusetts | 15.1 | Pennsylvania | 15.1 |
| Colorado | 11.3 | Michigan | 22.7 | Rhode Island | 17.0 |
| Delaware | 14.3 | Mississippi | 15.4 | South Carolina | 12.1 |
| Florida | 12.9 | Montana | 11.3 | South Dakota | 10.2 |
| Georgia | 11.9 | Nebraska | 8.3 | Tennessee | 14.7 |
| Hawaii | 22.3 | Nevada | 28.2 | Texas | 12.8 |
| Idaho | 11.5 | New Hampshire | 16.3 | Utah | 9.7 |
| Illinois | 16.4 | New Jersey | 15.3 | Vermont | 15.6 |
| Indiana | 16.9 | New Mexico | 11.3 | Virginia | 10.6 |
| Iowa | 10.2 | New York | 14.5 | Washington | 15.4 |
| Kansas | 11.2 | North Carolina | 12.2 | Wisconsin | 14.1 |
| Kentucky | 15.4 | North Dakota | 8.5 | | |
| Louisiana | 14.5 | Ohio | 16.8 | | |

**(1) All state series begin in 1976 | (p) = preliminary**

sibly once again the next month after that. If the coronavirus cases continue to climb it is highly unlikely that the fear of the virus can be relieved enough to stimulate the economy back to life. Too many people are still very afraid of what has happened.

## Conclusion

Only recently have businesses been allowed to open their doors to the public. Each state has laid down their own rules for reopening. Nevertheless, each state is carefully monitoring its death tolls from the coronavirus. If the death toll does not subside a state could be forced into a lockdown closed condition once again. This becomes the kiss of death for the economy to recover. Once they collapsed the economy in the manner they did, it will become very difficult to go back to where we once were. Finding a vaccine quickly is the only definitive cure.

Unfortunately, experts estimate that we will not have a COVID-19 vaccine until next year at the earliest, and some warn that one may *never* come. For the foreseeable future, living with COVID-19 is our new "normal." Readers need to adjust to this reality in all aspects of their lives. Regarding their finances, we urge more than ever to consider Nelson Nash's Infinite Banking Concept (IBC) and to read more in Austrian economics, in order to make sense of the unfolding economic disaster.

# Markets from Moses to Marx

## Interview with Roger McKinney

Roger McKinney first learned economics by earning an MA degree from the University of Oklahoma in 1991. Before that, he received a BA in theology from Baptist Bible College and a BA in communications from the University of Tulsa. He lives in Broken Arrow with his wife of 39 years. They raised three children and have been blessed with five wonderful grandchildren. He is a full citizen of the Choctaw nation and works as an analyst for a health insurance company in Tulsa. He writes regularly for Townhall Finance and had one book published by Laissez-Faire Books, *Financial Bull Riding.* He self-published through Amazon *God is a Capitalist: Markets from Moses to Marx.*

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

**Roger McKinney:** I had earned an MA in economics from the University of Oklahoma in 1991 and in the next decade I read a lot of articles in *Christianity Today* that I thought promoted raw Marxism. I began to wonder if socialism really is Christian economics, but my education didn't help me find answers. So I started looking into the origins of capitalism by reading histories of economics. I ran across an article by Ayn Rand in which she asserted that capitalism is the only moral economic system. Rand led me to Rothbard and Rothbard to the Mises Institute. I read Hayek and Mises and realized that I had learned a lot of things about economics at OU but with Austrian economics I had begun to understand economics.

**LMR:** We recently came across your Townhall Finance article discussing Ludwig von Mises' views on Christianity.[1] Can you summarize for our readers some of the main points?

**RM:** Mises showed an anti-Christian bias in his earliest writings due largely to the fact that Christian intellectuals in Europe tended to be socialists. He immigrated to the US during World War II and for the

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first time met pro-capitalist Christians. In later works he began to admit that Christianity didn't present an obstacle to free markets. His biographer, Jörg Guido Hülsmann, wrote in *Mises: The Last Knight of Liberalism* that he read the German theologian Carl Barth. By the time he wrote *Theory and History* and *The Ultimate Foundations of Economic Science,* Mises wrote as if he might have converted.

**LMR:** While we're on this topic, it's probably a good time to ask you about your book, *God is a Capitalist: Markets from Moses to Marx.* It's obviously a huge topic, but can you summarize some of your essential arguments?

**RM:** The first is a sound definition of capitalism. I rely on Mises for the main points but add that capitalism suppressed envy for the first time in history. That comes from Helmut Schoeck's *Envy: A Theory of Social Behavior,* which I found in one of Mises' books. I don't think Christians can emphasize enough the problem of envy and its role in empowering socialism.

A second argument is that the original constitution of ancient Israel in the Torah was a libertarian society. It had no human executive or legislature; no standing army, taxes or bureaucracy. The only government consisted of courts to adjudicate the 613 laws that God provided. Most of those laws applied to religious ceremony in the Temple. Others promoted morality. The courts only adjudicated the civil laws such as "Thou shalt not steal" and "Thou shalt not murder." It would have been a libertarian's dream. Christians dismiss that government as one designed for a primitive time and not relevant today. However, we need to consider that it was the only government God designed so while we don't have to replicate it today, the general principles prove what type of government God thought would provide the environment for people to flourish.

The final argument shows how the Godly theologians of the University of Salamanca, Spain, in the 16th century distilled the first principles of

capitalism from the Bible and natural law. Christianity gave birth to capitalism while atheists and deists in the Enlightenment fabricated socialism.

> "Christianity gave birth to capitalism while atheists and deists in the Enlightenment fabricated socialism."

**LMR:** As you know, there is a tradition of Christian socialism, whose adherents point to the early Church as living with communal property. Doesn't the book of Acts prove that Christians should be socialists?

**RM:** A superficial reading of Acts suggests communism. There are several arguments against that. One is that the tense of the verbs in Greek show that the selling of property and giving it to the church was ongoing and not a onetime event. Also, giving of one's property was voluntary and not required for membership in the church.

For the sake of argument, let's assume that the early church did practice communism. That still doesn't support a socialist government because the church was not a state and states should not do the work of churches because they have very different roles. No one wants to see Baptist pastors trying to arrest drug dealers nor the state preaching the gospel.

Even if the early church practiced communism like the early Israeli kibbutzim, that is still not an argument for a socialist state because as Hayek pointed out, small communes don't scale. Communist principles are necessary for small groups like families and tribes. They can work for local churches as well because everyone knows each other. But scaling those principles to the national level where few people know each other is a disaster, as history proves. Finally, if the early church at Jerusalem practiced pure communism, it didn't become a model for any other church, and it abandoned communism quickly. By the time the church chose deacons, the money given by members was distributed only to widows. Later, Paul restricted such giving to widows 60 years old and older. And he required members in his churches to work so that they could support their own families and have something left over to help the poor.

**LMR:** Finally, we understand that in a forthcoming book you're developing a new spin on the familiar "Robinson Crusoe" approach to teaching basic economics concepts. Can you explain?

**RM:** The great French economist Frederic Bastiat wrote that the most important job for economists is to popularize the principles. I was inspired by that and his defining property as the labor we put into our goods and services and wanted to incorporate that into an intro book. Also, I have been impressed with research I have read on the importance of using stories to teach principles. The Robinson Crusoe approach is a good example of that, but I wanted to do something fresh.

"I settled on the idea of telling the economic story of my tribe, the Choctaw, from the period before their encounter with Europeans to modern times."

I settled on the idea of telling the economic story of my tribe, the Choctaw, from the period before their encounter with Europeans to modern times. Before the coming of Europeans, Choctaws traded very little with other tribes and produced most of what they consumed, much as Crusoe did. Europeans introduced new technologies that the tribes couldn't produce, so they traded for them and improved their standards of living. With the industrial revolution, tribes enjoyed the benefits of steam engines and electricity even though they didn't invent them. Today, the Choctaw enjoy the same standard of living as other citizens. In other words, they're among the richest people in history.

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*Note: The economists and financial professionals interviewed in the LMR are given the freedom to express their views, without necessarily implying endorsement from the editors.*

References

1. See: https://finance.townhall.com/columnists/rogermckinney/2019/12/24/did-mises-become-a-christian-n2558499.


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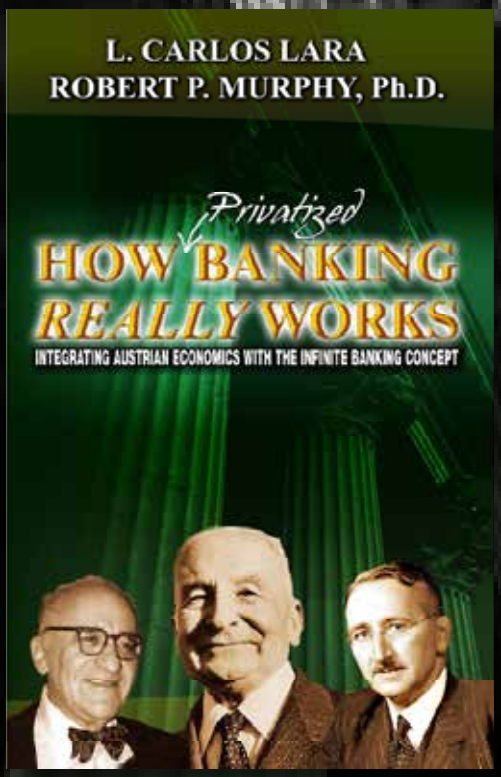


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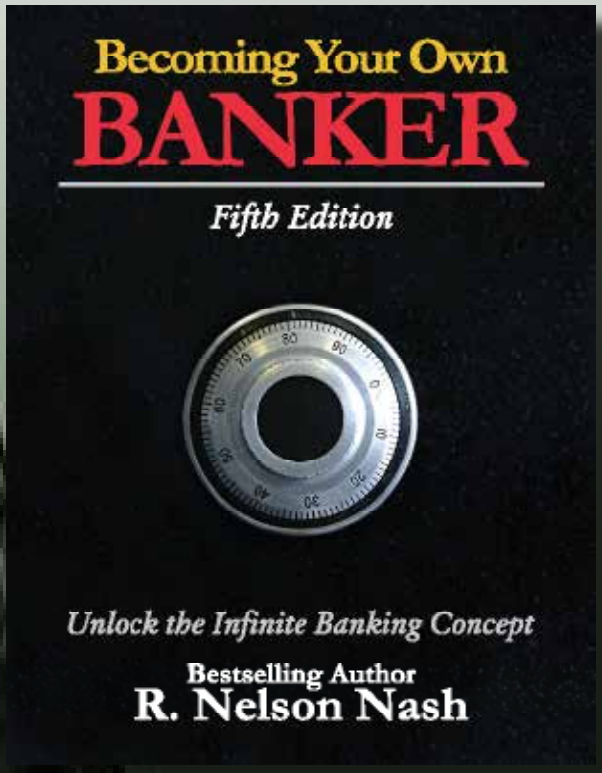


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