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JULY • 2019

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WHO RUNS THE WORLD? PART II

BY L. CARLOS LARA

We are re-printing Part II of this classic series by Carlos.

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ABOUT LARA & MURPHY

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"Behold, I am sending you out as sheep in the midst of wolves, so be wise as serpents and innocent as doves." – Matthew 10:16

"The LORD is my light and my salvation; whom shall I fear?" – Psalm 27:1

There are many alarming developments afoot, in not just the financial markets but also the political cycle and the broader culture. Those of us on social media can attest to the growing hatred between different factions in America, fueled by the presidential campaign. Whether it's the "Deep State" coup against the Trump Administration, or the extremely dubious details of the Jeffrey Epstein affair, the notion that there are dark and powerful forces at work behind the scenes can no longer be dismissed as a paranoid fantasy.

Here in the *Lara-Murphy Report* we strive to keep our readers up to speed on all of these issues. Although this is first and foremost a financial publication, written from the perspective of Austrian economics and Nelson Nash's Infinite Banking Concept, it would be naïve and foolish to simply *ignore* these weighty matters.

At the same time, we do not wish to counsel a state of fear or panic. For our part, we rest fundamentally on our faith: God is in control, and He loves us as His children. What, us worry?

If you're not a believer, try keeping perspective this way: Think back to all of the anxieties and fears you had in your younger days. Do you think they were largely healthy and promoted a good response on your part? Or were you often exaggerating particular fears, a habit that then crippled your ability to prepare for the challenges that really *were* coming?

We are students of economic theory and history. Yet these can only guide us so far, because the future will not be a mere repeat of the past. What we can be sure of is that the world needs people like you to help us spread the message of sound economics, sound money, and peace. In our view, Austrian economics and IBC are two critical elements of the needed renaissance.

As always, we thank you for your support in helping us Build the 10%.

Sincerely,
Carlos and Bob

Gold Standard of Fearmongering

As one of us (Murphy) explained in an article for the Mises Institute (available at: https://mises.org/wire/econ-establishment-teams-denounce-judy-shelton), the economics and media establishment have made it their task to denounce Judy Shelton, one of Trump's nominees for the Federal Reserve Board. A series of articles (some listed at the link) have painted Shelton as a dangerous woman with nutty views, including support for the gold standard, condemnation of the FDIC system for banks, and a belief that 2% price inflation robs savers of their wealth.

Yet these views are all quite sensible. In particular, when people blame the Great Depression on the gold standard, there is a lot packed into the argument. After all, it wasn't as if the U.S. went on gold in 1927. No, the U.S. had been on gold and/or silver in various forms for most of its history. To blame the worst economic depression in U.S. history on the gold standard is therefore a bit like blaming a plane crash on gravity.

The reason the gold standard seemed to cause so much trouble in the early 1930s is that *wages were not allowed to fall.* During the so-called Depression of 1920-21, prices actually fell more sharply than occurred under any twelve-month stretch during the Great Depression. But this price deflation didn't cause economic catastrophe in the early 1920s, because *wages fell even faster.* An employer doesn't care about selling prices per se, but about the relationship between selling prices and input prices.

There are various explanations for why wage rates (measured in nominal money terms, not adjusting for price level) became more "sluggish" or "rigid" in the early 1930s, but it is undeniable that they did. (The government and unions acted in concert to achieve this result, we would argue.) And stepping back, we have to ask: Why was there a crisis in the first place? What allows the stock of money to expand and then contract so rapidly?

The answer is the fractional reserve nature of our modern banking system. This is an issue that we spell out in depth in our book, *How Privatized Banking* ***Really*** *Works.*

PULSE ON THE MARKET

AOC Grills Powell

Not content to own climate change with her Green New Deal, Rep. Alexandria Ocasio-Cortez is also making monetary policy one of her issues. She has already publicly praised Modern Monetary Theory (MMT), a perspective that says the only real constraint on inflationary finance is real resource constraints, not government budgets per se. But now she is getting into other issues in monetary policy, challenging the fuddy-duddy conservatives who want to invent reasons for policy inaction. (Note the similarity to the climate change debate.)

In any event, check out this exchange between Ocasio-Cortez and Fed chair Jay Powell, which took place on July 10:

"Ocasio-Cortez: In early 2014, the Federal Reserve believed that the long run unemployment rate was around 5.4 percent. In early 2018, it as estimated that this was now lower, around 4.5 percent. Now, the estimate is around 4.2 percent. What is the current unemployment rate today?

Powell: 3.7 percent.

Ocasio-Cortez: 3.7 percent…Unemployment has fallen about three full points since 2014 but inflation is no higher today than it was five years ago. Given these facts, do you think it's possible that the Fed's estimates of the lowest sustainable unemployment rate may have been too high?

Powell: Absolutely."

What Ocasio-Cortez is getting at here is the Fed's concept of a "natural unemployment rate," as well as the so-called Phillips Curve, which plots the ostensible tradeoff between unemployment and (price) inflation.

Now remember that the Keynesian framework views everything through the lens of Aggregate Demand (i.e. total spending). If unemployment is too high, then the Keynesian solution is to goose spending, through an interest rate cut (say). By getting consumers and businesses to spend more, this "easy money" policy can increase the demand for products and ultimately the demand for labor, creating jobs. But the problem is that when the Fed pushes too hard on the inflationary gas pedal, then prices rise rapidly. Thus, the familiar tradeoff between inflation and unemployment.

Yet this theory is wrong, or at best it's very incomplete. As Milton Friedman famously argued—and was later vindicated by the stagflation experience of the 1970s—expectations play a crucial role. If people expect price inflation to be higher, then they will increase their wage demands. So at most, the Phillips Curve can explain why a sudden burst of *unexpected* monetary inflation might lower the unemployment rate; it won't last in the long run, though.

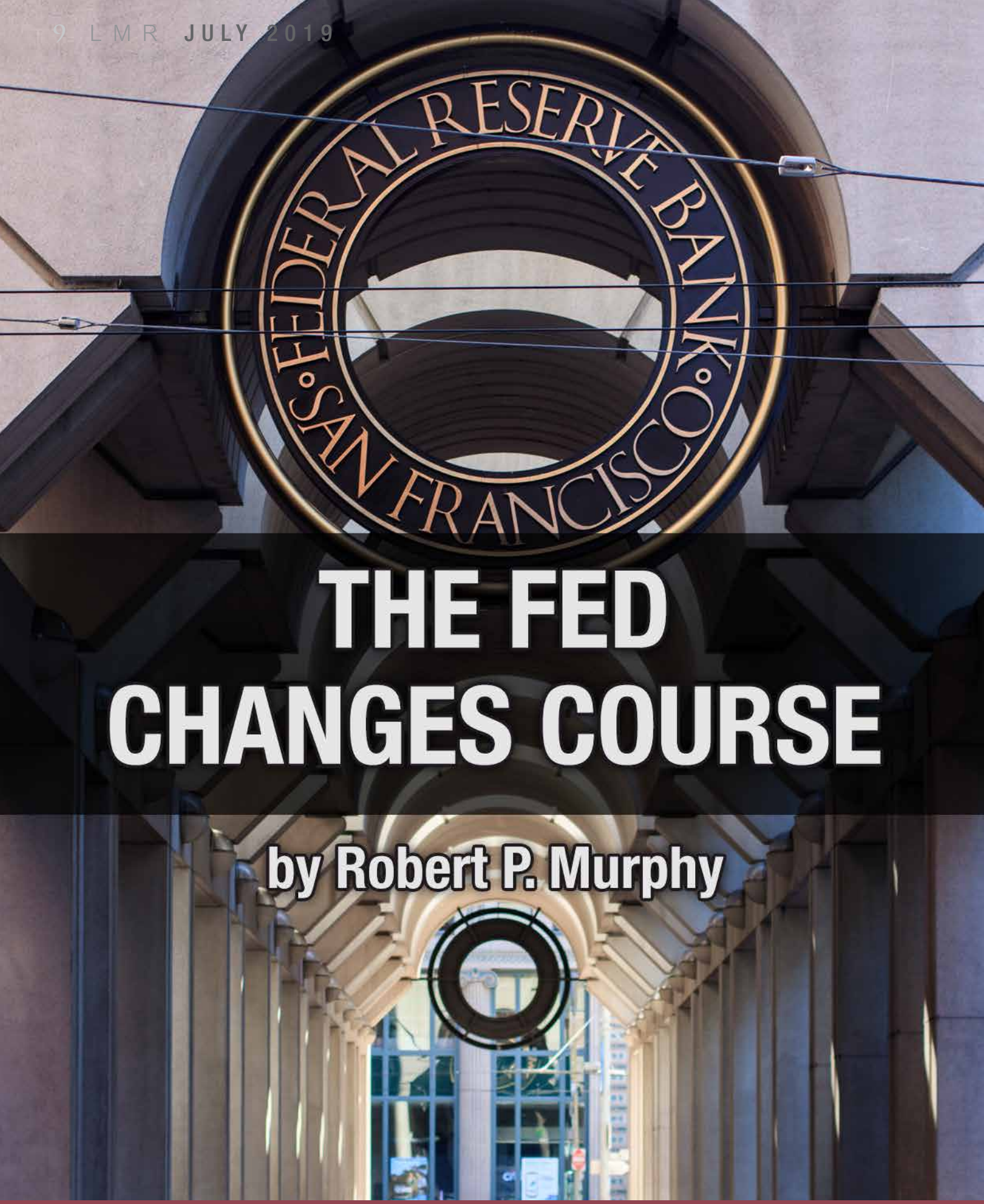
And, as the quotation above reveals, Ocasio-Cortez is smelling a rat, too. Now to be sure, her motivation is the opposite. She wants the Fed to adopt an easier policy, and thinks fears of inflation are scare tactics that the right-wing hawks use to justify complacency. Yet regardless of her motives, she asks Powell some good questions, showing the weakness in mainstream Keynesian economics.

If fans of the market economy want to fend off the democratic socialists, they should study not just economics but *free-market* economics, particularly in the Austrian tradition.

The Epstein Affair

The situation is quite fluid as we write this blurb. As many have pointed out, it is incredible that the *best* one can say about the situation is that prison officials let one of the most high-profile prisoners in our lifetimes kill himself in his cell after he had earlier been attacked and/or had a failed suicide attempt, *and* that they also lost the camera footage of the incident. And to repeat, that's the most *flattering* version of events we can come up with.

Amidst the wild claims of conspiracy and behind-the-scenes power brokers, it is very providential that we chose this and the previous issue to re-run Carlos' classic articles asking, "Who Runs the World?" Although there is much nonsense written in this genre, it is critically important and deserves careful scholarship just as much as the Fed's open market operations.



THE FED CHANGES COURSE

by Robert P. Murphy

On the last day of July, the Federal Reserve announced that it would be cutting its target for the federal funds rate, and it also moved up the termination of its balance sheet runoff. The move signals a fairly abrupt departure from the Fed's official outlook from just a year ago, even though the underlying fundamentals have not significantly changed in the interim.

Many observers have attributed the shift in Fed policy to Trump, either through his intimidation of Powell or because his antics with China could lead to a trade war (and hence require a shot in the arm to the economy). Either way, the Fed's announcement does not bode well for the long-term health of the economy. In my view, interest rates are still artificially low and the Fed's balance sheet is far too large.

It's true that the Fed's original trajectory would have led to a severe recession, but we are getting a severe recession no matter *what* the Fed does. Another round of easing may cushion the blow upfront, but it will only make the final reckoning that much more intense.

Interest Rate Cut

Table 1 summarizes the Fed's target for the federal funds rate, which is the interest rate that commercial banks charge each other for overnight loans of reserves.

TABLE 1. TARGET FOR FEDERAL FUNDS RATE

Date of Fed Announcement	Target Range for Fed Funds Rate
December 16, 2008	0.00 – 0.25 %
December 17, 2015	0.25 – 0.50
December 15, 2016	0.50 – 0.75
March 16, 2017	0.75 – 1.00
June 15, 2017	1.00 – 1.25
December 14, 2017	1.25 – 1.50
March 22, 2018	1.50 – 1.75
June 14, 2018	1.75 – 2.00
September 27, 2018	2.00 – 2.25
December 20, 2018	2.25 – 2.50
August 1, 2019	2.00 – 2.25

SOURCE: https://www.federalreserve.gov/monetarypolicy/openmarket.htm

FIGURE 1. FEDERAL FUNDS RATE

SOURCE: St. Louis Federal Reserve

In Figure 1, I've shown a long-term view of the fed funds rate, to give some historical perspective.

It should be clear that the Fed's reversal happened well before any return to "normal." Interest rates are still at historically low levels.

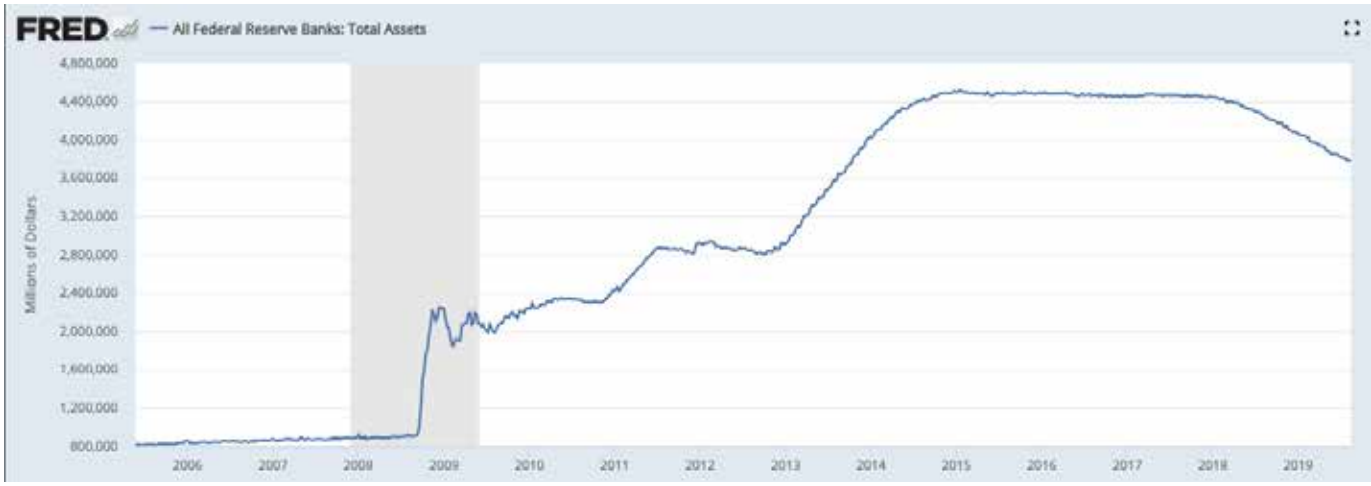
Balance Sheet Roll-Off to Terminate Soon

As I have argued for a while here in the pages of the *LMR,* the new Fed tool of "interest on reserves" makes it harder to associate an interest rate move with monetary "tightness" or "looseness." For example, as Table 1 indicates, the Fed began raising rates in December 2015. However, it did *not* let its balance sheet start to decline until about two years later. By simply altering how much it pays to commercial banks to keep their reserves parked at the Fed, our central bankers had the option of raising rates *without* sucking money out of the system.

We see the same situation now, but in mirror-image. That is to say, even though the Fed just cut rates, it is still letting its balance sheet shrink as bonds mature (and the Fed doesn't roll over all of the incoming principal payments to replenish them). See for yourself:

It's true that the Fed's original trajectory would have led to a severe recession, but we are getting a severe recession no matter *what* the Fed does.

FIGURE 2. TOTAL ASSETS HELD BY THE FEDERAL RESERVE SYSTEM



SOURCE: St. Louis Federal Reserve

Although you can't tell from the information in Figure 2 itself, that graph is current up through August 15[1], well after the Fed's effective August 1 rate hike. In a crude mechanical sense, I would expect the downward pressure on stocks to persist, simply because the Fed continues to literally "destroy" money from the financial system as its anti-QE policy unfolds.

However, besides the rate cut, in the July 31 press release the Fed also updated its stance regarding its balance sheet roll-off schedule, with this curt final sentence: *"The Committee will conclude the reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated."*[2]

If the Fed follows through with this plan, then the falling line in Figure 2 will soon go horizontal, meaning the Fed will stabilize its balance sheet at something like $3.6 trillion. For perspective, in the summer of 2008, on the eve of the financial crisis, the Fed's balance sheet was around $860 billion. This means the Fed is currently planning on stabilizing its holding at about *four times* their size (at least in nominal terms) compared to pre-crisis levels.

How Does the Fed's Course Change Affect My Economic Outlook?

Frankly I am surprised that the Fed cut rates this soon. For reasons I've laid out in earlier posts this year, I thought that in order to maintain credibility with global investors, the Fed would find it hard to raise rates when the labor market remained so healthy, at least according to the "official" statistics that the Fed ostensibly relies on. Specifically, the July civilian unemployment rate was 3.7 percent, which is the lowest level (if we disregard the recent months which were tied or

even a tenth of a point lower) going all the way back to the 1960s.

Consumer price inflation, as gauged by the official CPI, is also still bouncing around a 2% year-over-year increase in recent months. Technically, the Fed doesn't target CPI by instead looks at Personal Consumption Expenditures (PCE), but even so, it's hard to see how the Fed can justify cutting rates when its own dual-mandate / Phillips Curve framework doesn't indicate any "slackness" in the economy.

Indeed, gold prices have risen about $100 an ounce in August, presumably as a response to the Fed's course change. Yet most of the discussions in the financial press are looking at a possible trade war and the inverted yield curve; it's really only other economists I've seen wondering aloud why the Fed is cutting rates again.[3]

In my previous *LMR* posts on the economic outlook, I had hedged myself by saying words along the lines of, *"Assuming the Fed continues with its current policy of tightening…"* I supplemented my views with reasons that I thought the Fed would continue its tightening.

It's hard to see how the Fed can justify cutting rates when its own dual-mandate / Phillips Curve framework doesn't indicate any "slackness" in the economy.

Even though the Fed has changed course sooner than I thought it would, I believe we had a long enough phase of "monetary tightness" to qualify as a phase in the standard Austrian theory of the business cycle. In my other article in this issue, I discuss the yield curve and how Austrian theory can incorporate its "predictive" power quite elegantly. As I explain in that article, I still expect a recession to officially begin, sometime in late 2019 through the summer of 2020.

◆◆◆

References

1. To avoid confusion for current readers and future historians: As the "July" issue of the *LMR* was delayed due to production snags, and in light of the important developments taking place in early August, it seemed better to update the issue with the latest information before releasing it.

2. The Fed's July 31, 2019 press release available at: https://www.federalreserve.gov/newsevents/pressreleases/monetary20190731a.htm.

3. See for example Stephen Williamson's August 5, 2019 post, "Is the Fed Doing Anything Right?" available at: http://newmonetarism.blogspot.com/2019/08/is-fed-doing-anything-right.html.

The Yield Curve And Recession

by Robert P. Murphy

Here in the pages of the *Lara-Murphy Report* over the years I've written several pieces on a so-called "inverted yield curve" and its apparent ability to "predict" an imminent recession. On August 14,[1] an important milestone was passed when the yield on the 2-year Treasury surpassed that on the 10-year—the first time this had occurred since 2007. In response, traders logged the worst day on Wall Street of the year, with an 808-point (3.1%) drop in the Dow and a 2.9% drop in the S&P 500.

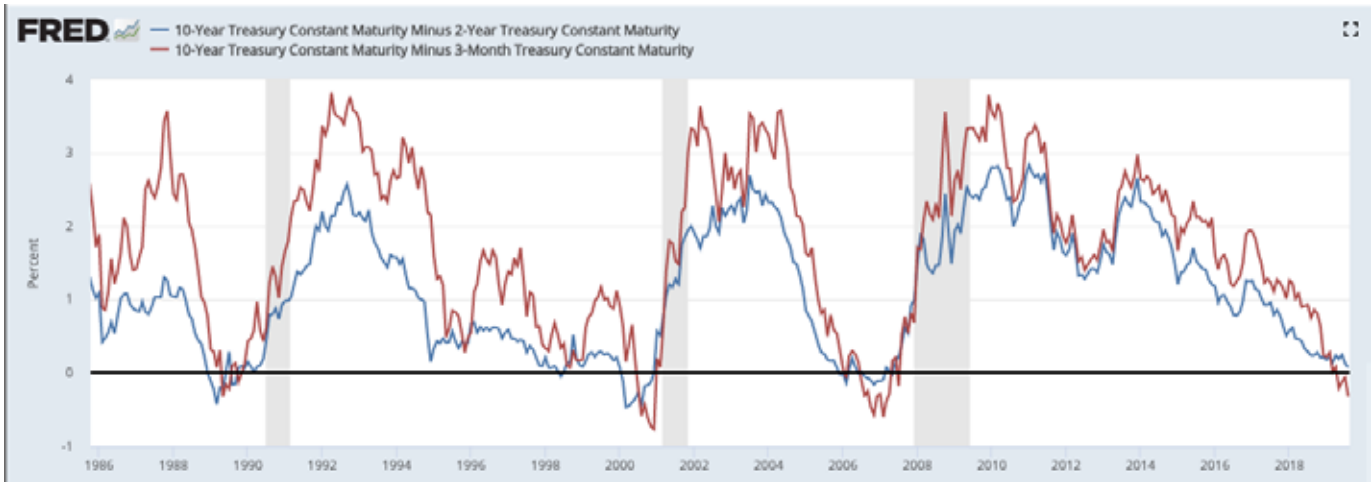
In the present article, I'll explain some of the financial media's coverage of the story, and then I'll show why the standard Keynesian explanation is wrong. Instead, the Austrian theory of the business cycle makes perfect sense of the yield curve's "predictive" power. Finally, I'll use the latest data to give my assessment on the economy.

Different Ways of Measuring the Inversion

One issue that might be confusing to some readers is that here at the *LMR*, we've been covering "the inverted yield curve" for months, whereas the markets flipped out on August 14. Here, the explanation is that there are different possible endpoints when we talk about "the" yield curve. In reference to recession work, the two most popular choices both have the same "long" end, namely the 10-year Treasury. But one of the popular choices picks the "short" end as the 3-month Treasury bill, while the other most popular choice picks the short end as the 2-year Treasury bond.

Not surprisingly, the actual specification of a particular short end can affect whether "the" yield curve is inverted or not. In our situation, the spread between the 3-month and

FIGURE 1. SPREAD BETWEEN TREASURY YIELDS ON 2-YEAR AND 10-YEAR (BLUE), AND BETWEEN 3-MONTH AND 10-YEAR (RED)



SOURCE: St. Louis Federal Reserve

10-year Treasury yields went briefly negative (i.e. inverted) in March of this year, but then bounced back into positive territory again.[2]

However, it once again inverted in late May, and has been negative ever since. In contrast, the spread between the 2-year and 10-year Treasury yields only dipped into negative territory on August 14 for an hour or so, and is since back in positive territory. (In fact, on the Treasury's official website[3] showing the daily yield curve values, even on August 14 the values do not show an inversion for the 2y/10y yields—they were recorded as 1.58 percent and 1.59 percent, respectively.)

Figure 1 shows the two popular candidates for a relevant test of yield curve inversion, going back to the late 1980s and showing the last three recessions (in gray bars).

So which series is preferable? Academic economists have argued that the more reliable "signal" of a recession comes from the spread between the 3m/10y, while many in the financial sector seem to prefer the 2y/10y. As the chart above indicates, they *both* have been pretty reliable, but as an economist I prefer the 3-month as my "short" end—i.e., the red line in Figure 1.

Why do I prefer using the 3-month as my pick for the short end? Well, as a matter of statistical performance, the academic literature[4] says it is more reliable, which is why economists tend to pick it; the interested reader can consult the citation in the endnotes below for more details. Indeed, even in Figure 1, you can see that the blue line went negative—below the dark black line—in June 1998, which was well before the 2001 recession. Rather than classifying that as "a very early warning" I think it would be more sensible to call it "a false positive."

It's important to keep these concepts in mind when we talk about "recession signals." For example, when the 2y/10y inverted on August 14, lots of articles talked about how it had occurred before each of the last five recessions, and (depending on how you mea-

sure it) before seven of the nine recessions occurring since World War II, according to Loyola Marymount University economics professor Sung Won Sohn.[5]

However, what I didn't see too much discussion of was whether inversions happened which were then *not* followed by a recession. Or more precisely, what is the allowable time lag, for an inversion to count as a "false alarm" rather than "a really early alarm, that will be followed down the road by another alarm, pointing to the same recession"?

To give a silly example, suppose I claim that the sunrise is a foolproof signal of an impending recession. I mean, there hasn't been a recession yet that was *not* preceded by a sunrise. So stay up late tonight and face east, to see if you should dump your portfolio at the opening bell…

Besides technical matters of predictive usefulness, I personally prefer the 3-month because of my belief in Austrian business cycle theory. As I will point out in the next section, I think the Austrian understanding of the boom-bust cycle gives a much more coherent *explanation* of the yield curve's apparent "predictive" power than the typical Keynesian story. And if the Austrian approach is correct, then it's clear that the 3m/10y spread is more relevant as an indicator of *monetary policy* than the 2y/10y spread, and hence is more relevant as a signal of an impending change in the economy.

Austrian vs. Keynesian Explanation of the Yield Curve Signal

The recent 2y/10y inversion, and the corresponding reaction in financial markets, provoked NYT columnist and Nobel laureate Paul Krugman to discuss these issues. I'll quote from his recent column as the perfect way to showcase the difference in the Keynesian approach to a more Austrian one:

> An old economists' joke says that the stock market predicted nine of the last five recessions. Well, an "inverted yield curve" — when interest rates on short-term bonds are higher than on long-term bonds — predicted six of the last six recessions. And **a plunge in long-term yields, which are now less than half what they were last fall, has inverted the yield curve once again,** with the short-versus-long spread down to roughly where it was in early 2007, on the eve of a disastrous financial crisis and the worst recession since the 1930s.
>
> Neither I nor anyone else is predicting a replay of the 2008 crisis. It's not even clear whether we're heading for recession. But **the bond market is telling us that the smart money has become very gloomy about the economy's prospects. Why? The Federal Reserve basically controls short-term rates, but not long-term rates; low long-term yields mean that investors expect a weak economy,** which will force the Fed into repeated rate cuts. [Paul Krugman, bold added.][6]

I'm picking on Krugman here because he and I have been none too fond of each other publicly,[7] but he is expressing here the standard mainstream/Keynesian view.

There are two main problems with Krugman's explanation. First, it's incomplete even on a theoretical level. Remember, what he's trying to explain is why the short end of the yield curve—namely, maturities on 1-month, 3-month, 1-year, 2-year, etc.—has consistently been higher than the long end of the curve (such as the 10-year), when a recession is coming within a year or two.

Krugman's explanation, to paraphrase from the block quotation above, is that bond investors *know* a recession is coming. And since they know the Fed slashes interest rates during a recession, and since long-term interest rates reflect investor expectations of the future path of short rates, then this explains why the 10-year yield (say) collapses as bond traders become more fearful.

So to repeat myself, Krugman's explanation is incomplete. Let's put aside the fact that it says, "The yield curve tells investors a recession is coming, because investors already know a recession is coming and their trading inverts the curve." Besides this circularity, Krugman's explanation is incomplete because it doesn't explain *why the 10-year yield collapses more than the 2-year yield.*

To make my point a different way: There have been plenty of stretches during the ostensible recovery when 10-year yields fell just as much as they have in the last year. (For example, in February 2011 the 10-year yield was 3.42%, and by May 2012 it was down to 1.59%.) But that collapse in 10-year yields wasn't because a recession was around the corner. (And to the point, the yield curve didn't invert during this time, because short-rates were stuck at roughly 0%.)

If the big-picture explanation of why long-rates fall before a recession is that bond investors are forecasting that the Fed will cut short rates, it's not obvious that it all adds

FIGURE 2. YIELDS ON 3-MONTH (RED) AND 10-YEAR (BLUE) TREASURIES

SOURCE: St. Louis Federal Reserve

up to fit the historical pattern. Depending on the specifics, we might expect the whole yield curve to shift downward. I'm not denying that Krugman could patch up his story if he had had more space, but it gets pretty complicated pretty fast—especially if we assume that the Fed itself reacts to this "gloomy forecast" and starts cutting short rates *ahead* of the recession in an attempt to provide a soft landing.

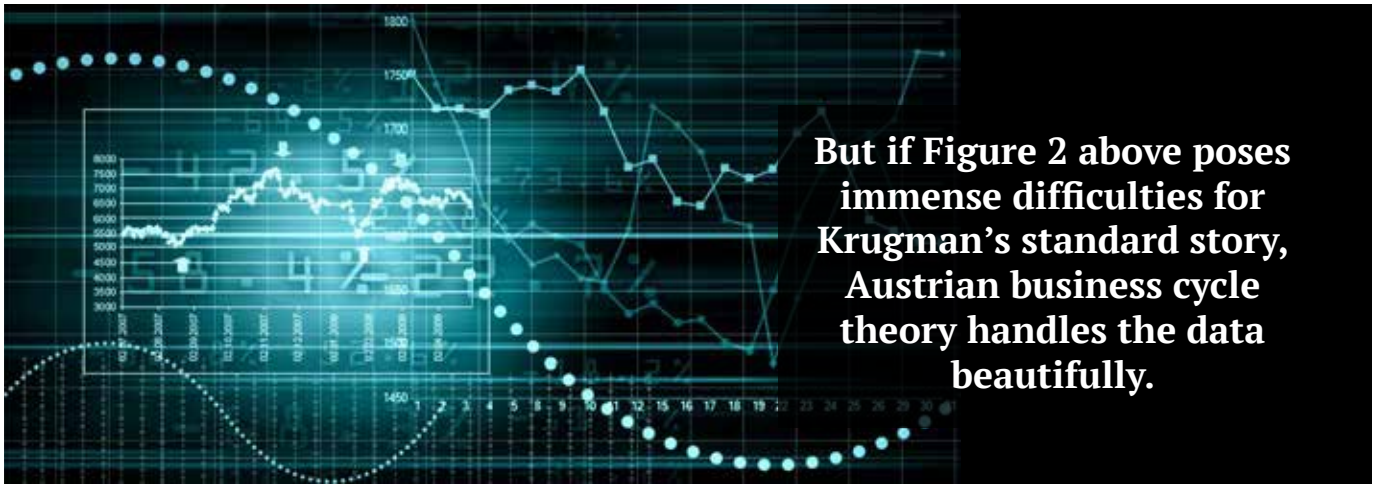
The Second Flaw With Krugman's Story

In any event, besides my problems with the internal completeness/coherence of Krugman's story, the *other* major flaw with it is that it ignores the fact that historically, the yield curve inverts *because short rates shoot above long rates.* See Figure 2.

To keep things simple, in Figure 2 I am just showing the 3m and 10y yields, not the 2y. To be clear, the information in Figure 2 is not the spread, but is instead the actual values of the 3m and 10y yields. Back in Figure 1 we were looking at spreads, but here we are looking at the actual yields, in other words the two numbers that we use to calculate a particular spread (using subtraction).

Figure 2 thus gives us more information. We can still see that the yield curve inverted before the last three recessions: Namely, the red line is typically lower than the blue line, but it briefly was higher before each of the gray bars.

However, Figure 2 shows us the huge flaw in Krugman's explanation. If you were going to draw a diagram like Figure 2, merely relying on Krugman's story, you would probably draw a flat red line and flat blue line during the "boom" periods, and then when you imagined investors started worrying about



lackluster future growth, the blue line would fall below the red line.

But Figure 2 shows that's not at all what happens. Instead, during the boom periods the red line *shoots up above* the fairly steady blue line, and *then* they both start heading down, into a recession.

Indeed, the starkest counterexample to Krugman's story occurs during the housing bubble years. Notice that when the yield curve first inverted in the summer of 2006, the blue line at that point was just about the highest it had been since the previous recession. *Clearly,* the reason for the yield curve inversion before the Great Recession was that short rates shot way up, not that long rates fell.

But if Figure 2 above poses immense difficulties for Krugman's standard story, Austrian business cycle theory handles the data beautifully. The Federal Reserve's monetary operations influence short-term interest rates much more than long-term rates. So when the Fed engages in loose monetary policy, it pushes down short rates more than long rates, producing a "normal" upward-sloping yield curve.

Then, when the Fed begins to get nervous during the expansion, it eventually tightens policy by slowing the rate of monetary inflation. This causes short rates to spike, but long rates don't rise nearly as much. (In fact, long rates might even go down, if investors expect lower price inflation from the tighter monetary policy, and also because of Krugman's suggested channel of expectations about real growth.)

Thus, a period of loose money would correspond to an upward-sloping yield curve, while a sudden tightening would correspond to an inversion. And when the Fed switches from loose to tight money, first pushing down interest rates and then raising them, this produces the boom-bust cycle in standard Austrian expositions.

My Economic Outlook

Figure 2 also gives us a rough-and-ready guide to anticipating when the next recession may hit. If we look at the turning point downward of the short rates (red line) after the inversion, and then check to see how soon after the recession officially began, it took as short as 4 months and as long as 15 months.

If that pattern holds up this time around, we would expect the next recession to start in the fourth quarter of this year up through late summer of 2020.

Conclusion

The reader may have noticed that I didn't say a word in this article about the brewing trade war. I will cover this topic in the next issue (August 2019) of the *LMR*, but for me, tariffs per se don't cause recessions. They make us *poorer*, to be sure, but the business cycle in my view is fundamentally about money and banking.

More and more financial analysts are becoming alarmed at the prospect of an imminent recession. However, those of us armed with Austrian economics understand more deeply the *reasons* for certain empirical patterns. Furthermore—as Paul Krugman's commentary above indicates—the typical wonk doesn't expect major problems, but instead just thinks the world is in store for sluggish growth as far as the eye can see.

In contrast, I am still very concerned that the seven years of virtually zero percent interest rates have set the world economy up for a giant reckoning. If you haven't yet watched it, I urge you to view the video Carlos and I put out at our website, on how to weather the coming financial storms. Right now it's still available on the main page of our site, or you can go to the permanent link at: https://lara-murphy.com/video0916/.

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1. For the benefit of confused readers and future historians: I knew I was going to write on the yield curve for the July issue of the LMR, but because of a snag in our production we were going to miss the deadline. Then as events kept moving, it seemed better to update my analysis with the latest information, thus releasing a "July" issue that references events occurring in August.
2. A note on my nomenclature in this article: I will refer to the spread between the 3-month and 10-year yields as going negative when the 3-month is higher than the 10-year. This is a bit counterintuitive (since "the spread" suggests it's the first number minus the second number), but since we plot a yield curve with the shortest maturities on the left of the x-axis and the longest maturities on the right, I think it is the most natural way to discuss the topic.
3. Official Treasury data on yield curve values available at: https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield.
4. Some standard academic references on the yield curve as "leading indicator" are available at: https://www.newyorkfed.org/research/capital_markets/ycfaq.html.
5. See: https://www.cnbc.com/2019/08/13/us-bonds-yield-curve-at-flattest-level-since-2007-amid-risk-off-sentiment.html.
6. Paul Krugman, "From Trump Boom to Trump Gloom," New York Times, August 15, 2019, available at: https://www.nytimes.com/2019/08/15/opinion/trump-economy.html.
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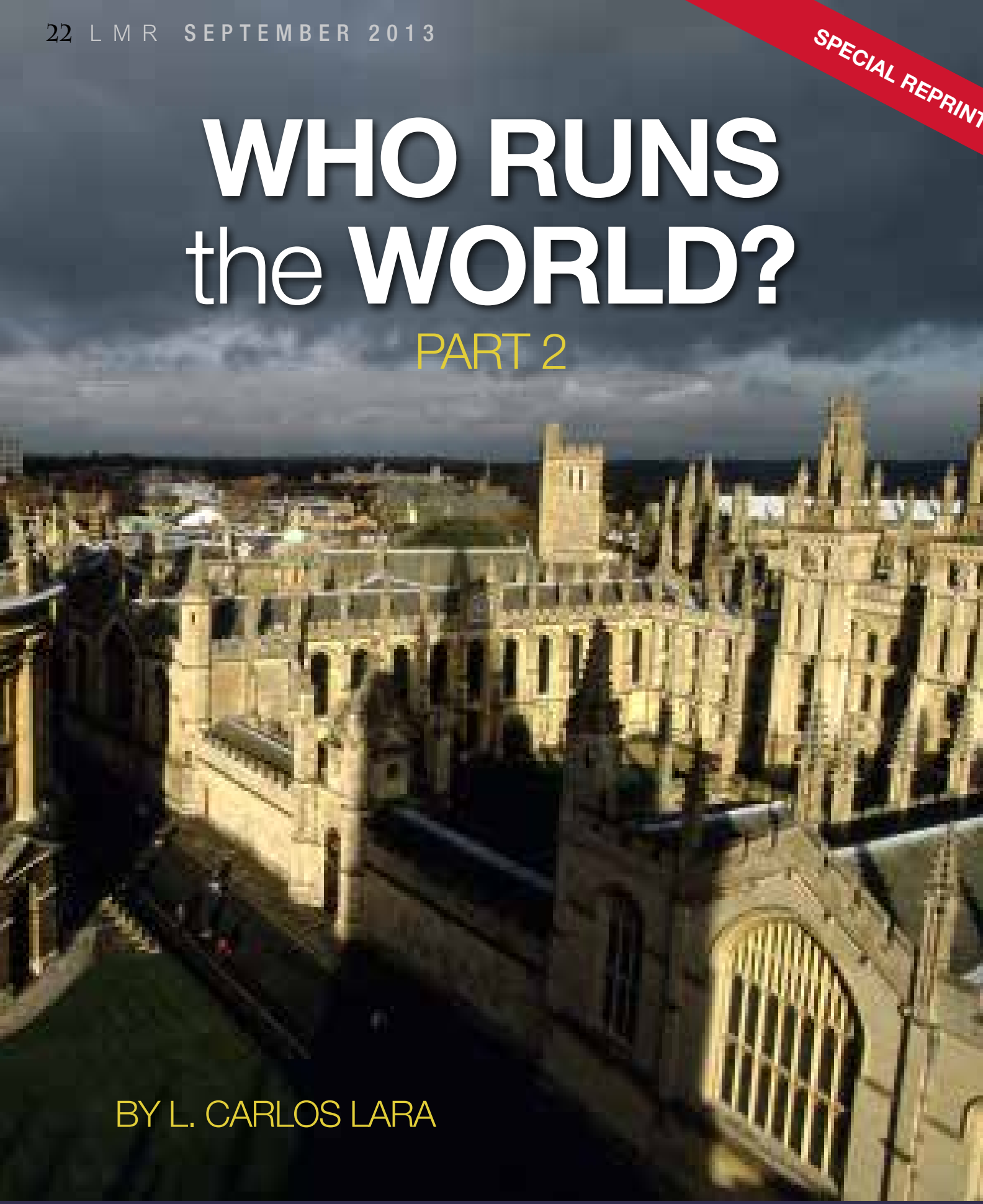
SPECIAL REPRINT

WHO RUNS the WORLD?

PART 2

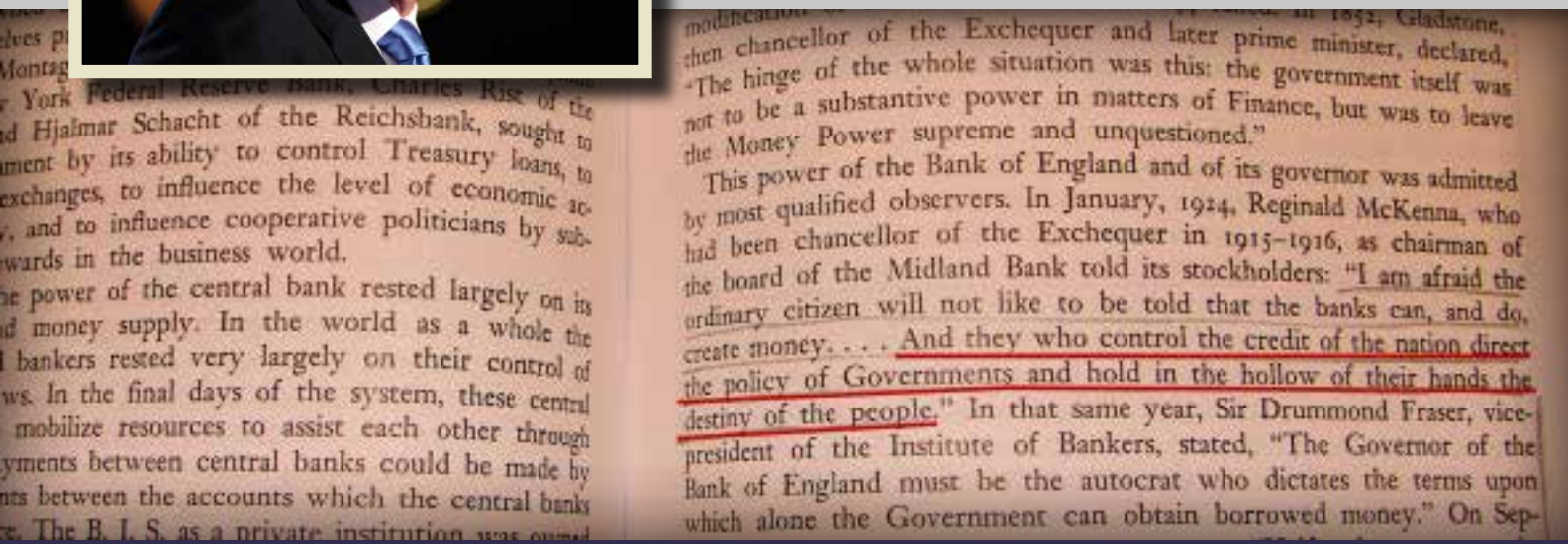


BY L. CARLOS LARA

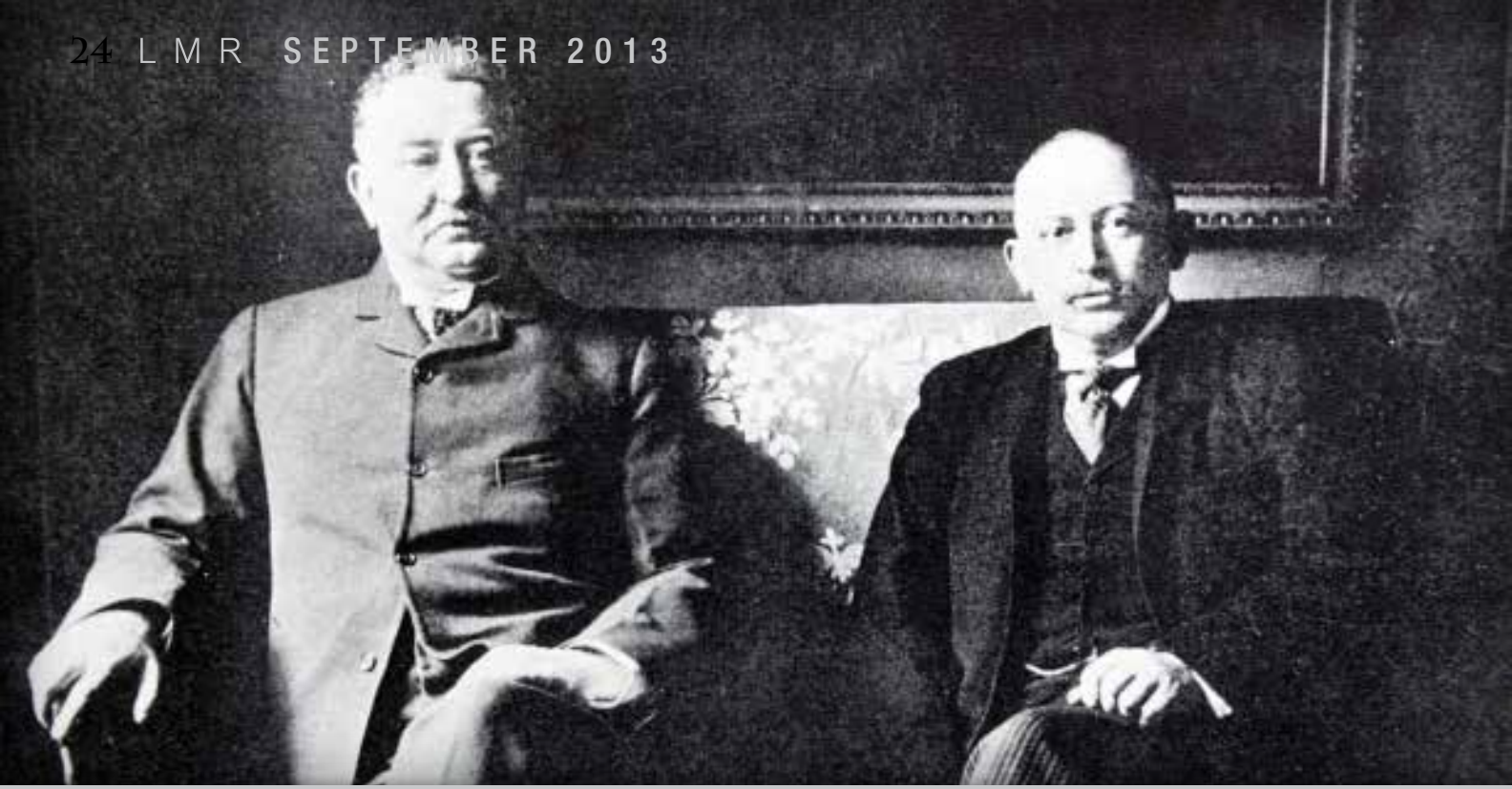
THIS *LMR* ARTICLE, the second in a series, is exploring an issue that makes many people uncomfortable, including us. We have all heard sensational "conspiracy theories" about nefarious groups pulling the strings of the politicians and effectively running the world from behind the scenes. It is true that much, perhaps most, of what is written in this genre consists of either unwarranted leaps or outright falsehoods. Even so, there really is something here. The patient individual can weed through the speculations and exaggerations and find solid, scholarly evidence that there is more than meets the eye when it comes to world events. In last month's issue, I alluded to a "secret plan" conceived by one individual over one hundred years ago—a man whose name we will reveal later in this writing. Murray N. Rothbard in his monograph entitled, *"Wall Street, Banks and American Foreign Policy"* verified this secretive plot. There are many credible scholars—people who choose their words carefully and are by no means "paranoid"—who calmly argue that significant historical and current events in society, politics, monetary and foreign policy are orchestrated by an elite power group through many front organizations consisting of banks, foundations, trusts, think tanks, and publishing entities.

The main source for this material comes from a twenty-year study done by Dr. Carroll Quigley, a prestigious historian and professor with impeccable Harvard academic credentials. His scholarly work was published in 1966 in his book, *Tragedy and Hope: A History Of The World In Our Time.* Most of the sensationalism associated with his facts comes from other writers who relied heavily on Quigley's book and whom Quigley[1] openly dismissed as having misquoted his information. Some of these writers who sold millions of books in the 70s and 80s, in our estimation, have indeed stretched some of the

IT'S NO WONDER THAT
President Bill Clinton thought so highly of his former professor, Quigley, and credited him accordingly.


then chancellor of the Exchequer and later prime minister, declared, "The hinge of the whole situation was this: the government itself was not to be a substantive power in matters of Finance, but was to leave the Money Power supreme and unquestioned."

This power of the Bank of England and of its governor was admitted by most qualified observers. In January, 1924, Reginald McKenna, who had been chancellor of the Exchequer in 1915–1916, as chairman of the board of the Midland Bank told its stockholders: "I am afraid the ordinary citizen will not like to be told that the banks can, and do, create money. . . . And they who control the credit of the nation direct the policy of Governments and hold in the hollow of their hands the destiny of the people." In that same year, Sir Drummond Fraser, vice-president of the Institute of Bankers, stated, "The Governor of the Bank of England must be the autocrat who dictates the terms upon which alone the Government can obtain borrowed money." On Sep-



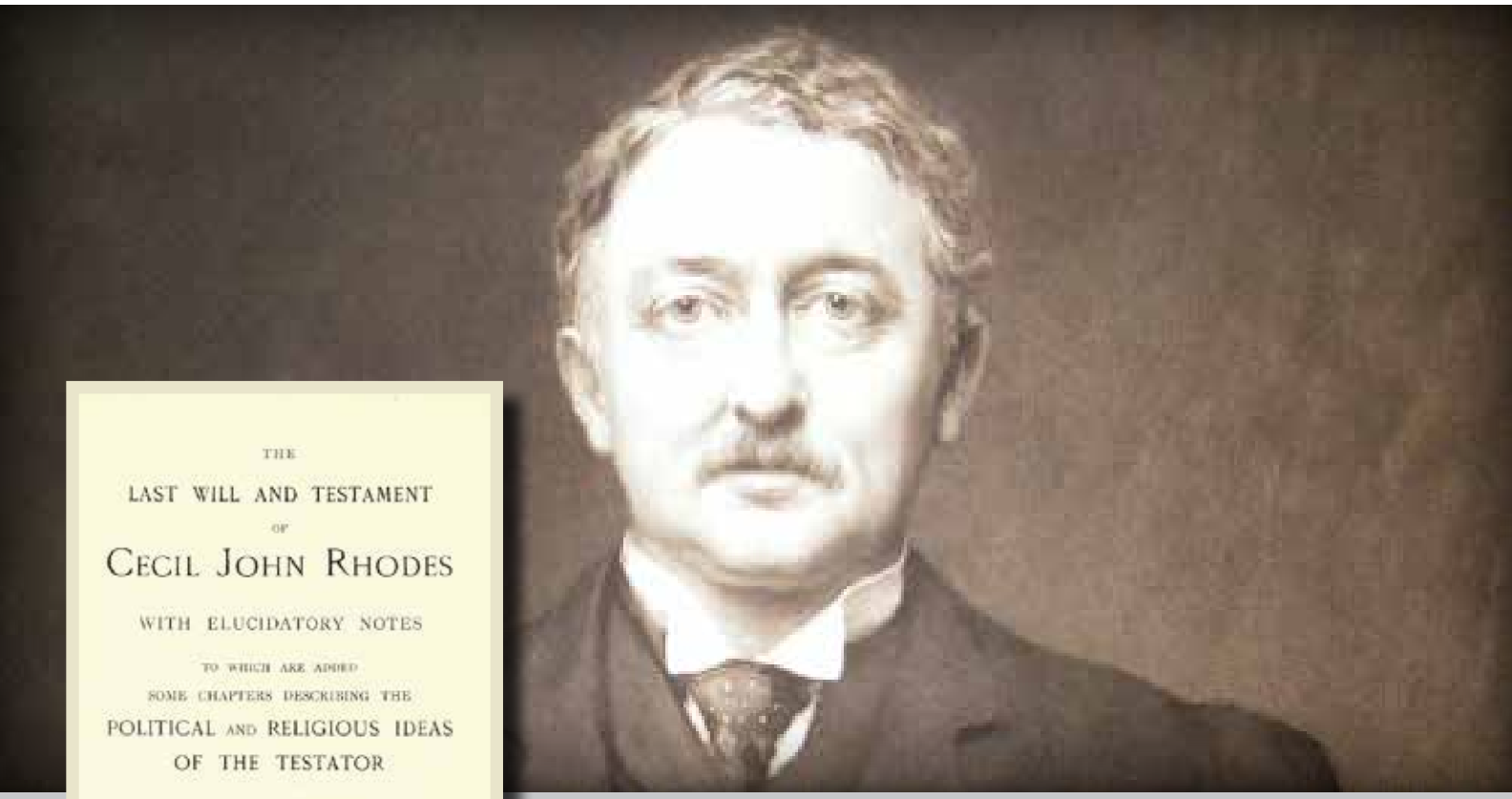
"THERE DOES EXIST, and has existed for a generation, an international Anglophile network. I know of the operations of this network because I have studied it for twenty years and was permitted for two years, in the early 1960s, to examine its papers and secret records."

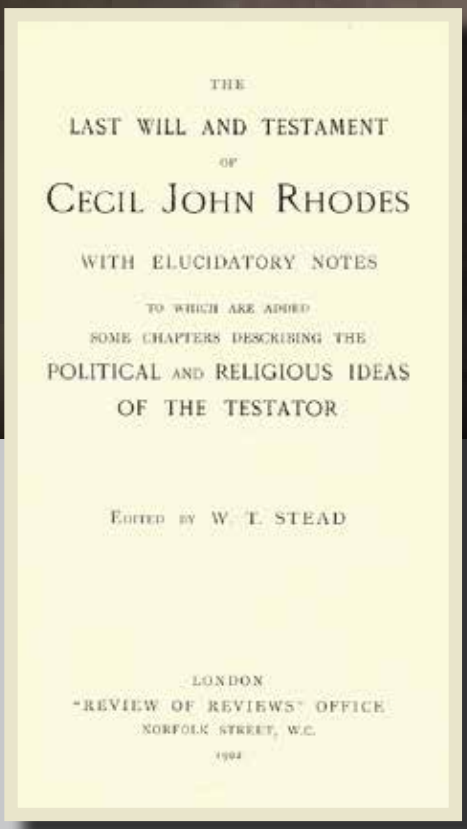
Quigley facts. These authors went on to develop various apocalyptic scenarios that have pulled in millions of believers holding them in a state of fear and agitation through their own advocacy groups. Of course, this type of extrapolation is nothing new in the realm of conspiracy theories. The *"Red Scare"*[2] of 1947-1957 spread unfounded rumors of the Freemasons, Illuminati and Jews involved in an international communist conspiracy—later known as McCarthyism. Prior to that, *The Protocols of the Elders of Zion,*[3] first published in 1903 in Russia and which turned out to be an anti-Semitic hoax, was actively distributed by the American industrialist, Henry Ford, in the 1920s. Adolf Hitler publicized the same text as if it were a valid document in Germany in 1933 even though it had been exposed as a fraud. Academic British historian Norman Cohen[4] noted that Hitler quoted from this document in his own manifesto, *Mein Kampf,* making it Hitler's justification for initiating the Holocaust.

I want to be clear that Quigley's book is not even in the same league as these other controversial exposés. It is completely different in its academic writing, depth, and scope. It is a scholarly piece of work and he does not write as someone purporting to be discussing something sinister or controversial at all. One is actually impressed with the authenticity of his account. As one who has come to understand the workings of the central banks, I personally would recommend this book on that account alone.

His explanations of money creation are excellent. His understanding of capitalism in all of its formative stages and the business cycle is accurate. He seems to write more as an economist than the historian that he is. In other parts of his book, his descriptive analysis of how the Asian, Hindu, and Islamic mind thinks is written more like a psychologist, leaving the reader to ponder the breadth and caliber of the author's mind. It's no wonder that President Bill Clinton thought so highly of his former professor, Quigley, and credited him accordingly, even though Clinton made Bs in his course while an undergraduate at Georgetown University and everyone else made Ds or less.

Realizing how powerful and manipulating fear can be when discussing conspiracy theories, we the *LMR* authors want to proceed cautiously in continuing to examine the information in this important book, yet one cannot fail to see that Quigley's masterpiece does contain some very startling facts about a secret society and about the man who conceived the cabal's plan on February 5, 1891. This secretive plot is not necessarily the main theme of Quigley's book,





THE
LAST WILL AND TESTAMENT
OF
CECIL JOHN RHODES
WITH ELUCIDATORY NOTES
TO WHICH ARE ADDED
SOME CHAPTERS DESCRIBING THE
POLITICAL AND RELIGIOUS IDEAS
OF THE TESTATOR

EDITED BY W. T. STEAD

LONDON
"REVIEW OF REVIEWS" OFFICE
NORFOLK STREET, W.C.
1904

THE RHODES SCHOLARSHIP. This was Rhodes's incubator for the best and the brightest young men in the world, selecting from them the ones with the right type of personality to move into positions of influence and later become members of his outer circle of helpers.

THE ASTOR RELATIONSHIP put the group in influential control of numerous newspapers in Britain like The Times and the Pall-Mall Gazette. In the the United States they controlled *The New York Times, The NY Herald Tribune, The Christian Science Monitor,* and *The Washington Post,* as well as several universities.

though it is definitely interwoven throughout the time span of history he covers. One is astonished to learn that after nearly one hundred years, Quigley asserts that the secret society had grown internationally and was still kept active by its members in 1966. Some of these organizations named by Quigley in 1966 are very familiar to most of us and we know are in operation in 2013.

"There does exist, and has existed for a generation, an international Anglophile network. I know of the operations of this network because I have studied it for twenty years and was permitted for two years, in the early 1960s, to examine its papers and secret records. I have no aversion to it or to most of its aims and have, for so much of my life, been close to it and to many of its instruments. I have objected, both in the past and recently, to a few of its policies…but in general my chief difference of opinion is that it wishes to remain unknown, and I believe its role in history is significant enough to be known."[5]

—Carroll Quigley

The man Quigley writes about is Cecil Rhodes.[6] At that time, Rhodes had a virtual monopoly over all of the South African gold and diamond mines making him one of the wealthiest individuals on earth. As one of the precepts to his plan, Rhodes established a trust to fund scholarships for certain qualified students to attend Oxford University—The Rhodes Scholarship. This was Rhodes's incubator for the best and the brightest young men in the world, selecting from them the ones with the right type of personality to move into positions of influence and later become members of his outer circle of helpers. Here the reader may need to quickly check him

or herself for once Quigley's facts begin to disseminate, extrapolation can quickly absorb us too. For example, we may ask ourselves: *"Did Quigley demonstrate to Bill Clinton— a future Rhodes scholar—the road to the U.S. Presidency?"*

THE PLAN'S IDEOLOGY

The period leading up to World War I was a time of great change for Britain. While the upper class of England (landowners) was not allowed nobility status because of birth, it was able to become an *aristocracy* through traditions and behavior. All young boys were sent to expensive schools like Eton, Harrow, or Winchester to receive their educational training, however only the oldest, by "primogeniture," was entitled to inherit the income-producing property of the family. This made it necessary for the younger sons to seek their fortunes overseas. The same was true of the more ambitious members of the lower classes. From these two sources Britain obtained its empire of colonies, and colonies became a source of great riches for individuals and companies. This led to the growth of imperialism.

Imperialism took a turn after 1870 whereby instead of being advanced on the grounds of material gain, it was justified on grounds of moral duty and social reform. The person most responsible for this change was an eloquent speaker and professor at Oxford, John Ruskin.[7] While the elite wealthy aristocracy lived in splendor and privilege, the masses in Britain were in poverty, ignorance, illness, and infested with crime. Ruskin delivered a powerful speech at Oxford, which convicted many of the undergraduates in his audience. He impressed upon them that their magnificent tradition of education, beauty, rule of law, freedom, decency, and self-discipline could be lost forever if not shared with the lower classes, and furthermore to the non-English speaking masses of the world. It was their moral duty to do it.

In that audience sat young Cecil Rhodes who was immensely moved by that talk and he held on to that idea for sixteen years. In the meantime, he used Lord Rothschild's money, making his own fortune (DeBeers Consolidated Mines) in gold and diamonds in one of Britain's colonies—South Africa. His burning desire to federate the English-speaking peoples and to bring all the habitable portions of the world under their control moved him to set up the Rhodes

Scholarship at Oxford in order to spread this idea. The stars aligned with the formation of the secret society when W.T. Stead,[8] the most successful newspaper publisher in Britain, also a social reformer and imperialist (known today as the father of the tabloid), got together with Rhodes to incorporate the plan. Rhodes was to be the leader, Stead, Reginald Baliol Brett, (Lord Esher)[9] and Alfred Milner (later, Lord Milner), were to be the executive committee (inner circle) with Lord Rothschild and about a dozen other Oxford and Cambridge Ruskinites, becoming the outer circle—the *"Association of Helpers,"* (later organized by Milner as the *Round Table* organization that would spread throughout the world).

Financial backing for the secret society came initially from the Cecil Rhodes Trust and loyal Rhodes supporters. Their first outreach was to build a local *"settlement house"* (Toynbee Hall) erected right in the center of England's slums where upper class people could live while they went out each day to educate the lower classes with an emphasis on social welfare. This became the model for thousands of such houses in Britain and later the United States, like the *"Hull House"*[10] in Chicago, which later spread to 500 such houses. When Cecil Rhodes died in 1902, Lord Milner (whom Quigley described as a very secretive type of individual) became the trustee of the Rhodes trust and expanded the movement even further by establishing the Round Table groups. By recruiting young men from

Oxford and using his influence, he was able to win important posts for them in government and international finance. These were often referred to as "Milner's Kindergarten." By 1939 these semi-secret organizations were in all British colonies and the United States. When the wealthy Astor family became involved in making sizable monetary contributions, the Round Table groups were sometimes referred to as the *"Cliveden Set,"*[11] and the Astor relationship put the group in influential control of numerous newspapers in Britain like *The Times* and the *Pall-Mall Gazette*. In the the United States they controlled *The New York Times, The NY Herald Tribune, The Christian Science Monitor,* and *The Washington Post,* as well as several universities.

Milner died in 1925 and Lionel Curtis[12] assumed the reins of the organization until his own death in 1955. During his tenure he founded a quarterly magazine called the Round Table that was used to keep the groups in contact with one another, and through his writings, influenced the creation of *The Commonwealth of Nations.*[13] Later he organized the *Royal Institute of International Affairs*— also known as *Chatham House,*[14] an international think tank. 13 He was a staunch advocate of British Empire Federalism and Quigley quotes him as being passionate in his beliefs.

"[On the New Testament's "Sermon On The Mount":] The last was especially influential on Lionel Curtis. He had a fanatical conviction that with the proper spirit and the proper organization (local self government and federalism) the Kingdom of God could be established on earth. This was the spirit, which Milner's Group had tried to use toward the Boers (Dutch farmers in South Africa) in 1902-1910, toward India in 1910-1947, and, unfortunately, toward Hitler in 1933-1939. In the case of Hitler, at least, these high ideals led to disaster; this seems also to be the case in South Africa."[15]

—Carroll Quigley

After Curtis' death in 1955 the group was run by Robert H. Brand (brother-in-law of Lady Astor), until his death in 1963 and then by Adam D. Marris, director of Lazard Brothers Bank (1966). Curiously, I was not able to find any information on Marris to see if he is still alive and in control of the Round Table groups. Lazard Brothers is a prestigious international investment-banking firm with 40 offices in 26 different countries. Its principal office is in Rockefeller Center in New York. When I would

PROGRESSIVES IN THE United States and other nations embraced the idea of international organizations such as the United Nations, which was formed in 1945, as a way to foster global justice and hopefully prevent future world wars. This may partly explain why Quigley himself was not at all against the secretive group he wrote about since they had similar international motives which Quigley agreed with.

"POWERFUL INFLUENCES in this country want me, or at least my work, suppressed."

type in Marris's name on Wikipedia it automatically took me to a *Jerome Davis Greene*[16] and what Quigley has to say about this gentleman is most interesting.

"One of the most interesting members of this Anglo-American power structure was Jerome D. Greene. Born in Japan of missionary parents, Greene graduated from Harvard's college and law school by 1899 and became secretary to Harvard's president and corporation in 1901-1910. This gave him contacts with Wall Street, which made him general manager of the Rockefeller Institute, assistant to John D. Rockefeller in philanthropic work for two years, then trustee to the Rockefeller Foundation, and to the Rockefeller General Education Board until 1939.

[He was stationed in London in 1918 and lived in Toynbee Hall, the world's first Rhodes-Milner settlement house where he came in contact with the Milner Group and movement. —Bracketed statement is mine from page 955 of Quigley's book.]

Accordingly, on his return to the United States he was one of the early figures in the establishment of the Council of Foreign Relations, which served as the New York branch of Lionel Curtis's Institute of International Affairs."17

—Quigley

But this is not all, Greene is of much greater significance within the *Institute of Pacific Relations,*[18] that helped increase the network of the Round Table groups with an additional 10 member countries making a total of 17 countries in all. In fact, Quigley says he wrote the constitution for the IPR *"and was for years the conduit for Wall Street funds and influence into the organization. He is the symbol of the relationship between the financial circles of London and those*

of the eastern United States which reflects one of the most powerful influences in twentieth century American and world history—The English and American Establishments."19

BENEVOLENCE?

In the aftermath of two World Wars, progressives[20] in the United States and other nations embraced the idea of international organizations such as the *United Nations,* which was formed in 1945, as a way to foster global justice and hopefully prevent future world wars. This may partly explain why Quigley himself was not at all against the secretive group he wrote about since they had similar international motives which he (Quigley) agreed with. His only disagreement with the group was the fact that they wished to remain anonymous. Clearly, from what we read these original founders, Rhodes, Milner, and Curtis were not only cultured and wealthy individuals, but they belonged to a British aristocracy who lived amongst great opulence surrounded by an unparalleled form of tradition and morality. Although secretive, their original motives certainly seemed pure, as though they were involved in doing nothing more than the Lord's work. Did something go awry?

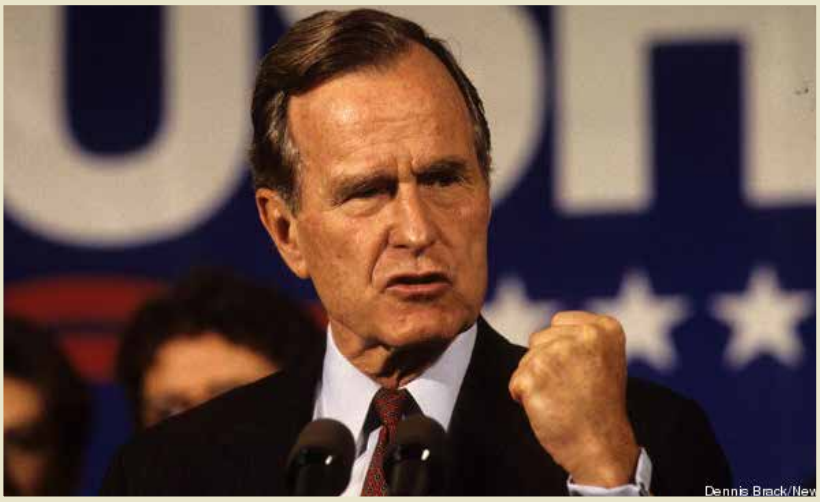
In November of 2009, just one year after the financial crisis, which attracted widespread media attention over the size of its company staff bonuses, Goldman Sach's Chief Executive Lloyd C. Blankfein is quoted as saying:

"We're very important…we help companies grow by helping them raise capital. Companies that grow create wealth. This, in turn, allows people to have jobs that create more growth and more wealth. It's a virtuous cycle. We have a social purpose … doing God's work."21

Ironically, Quigley who seemed supportive of the group he wrote about seems to have years later changed his mind at the time when he attempted to reprint more additions of his book. He felt that a reprinting of it was being blocked. According to an interview he gave in 1974:

"The original edition published by Macmillan in 1966 sold about 8800 copies and sales were picking up in 1968 when they "ran out of stock," as they told me (but in 1974, when I went after them with a lawyer, they told me that they had destroyed the plates in 1968). They lied to me for six years, telling me that they would re-print when they got 2000 orders, which could never happen because they told anyone who asked that it was out of print and would not be reprinted. They denied this until

PRESIDENT George W. Bush described his objectives for post-Cold War global governance in cooperation with post-Soviet states as a "New World Order."



I sent them Xerox copies of such replies to libraries, at which they told me it was a clerk's error. In other words they lied to me but prevented me from regaining the publication rights by doing so (on OP [out of print] rights revert to holder of copyright, but on OS [out of stock] they do not.) ... Powerful influences in this country want me, or at least my work, suppressed."[22]

—Carroll Quigley

What are we to make of this last statement of Quigley and his apparent reversal? More importantly, what about the material he writes? Is it true? One of the benefits of history is that it allows us to examine the facts utilizing hindsight. I used *hindsight* in Part I in this series in attempting to properly analyze the material without endorsing it. In addition to that, we listed several important beliefs shared by the authors of the *LMR*. Here they are again summarized to provide you a quick review before going further in our analysis:

1. Human action is a force in the world. This is what makes ideas of the mind and the actions that follow so powerful. Ultimately, ideas move the direction of world events.

2. The unfortunate aspect of the power of ideas is that men posses it and men are not angels. There are such things as evil ideas. We agree with Mises who said that we all had a moral responsibility to fight and destroy evil ideas.

3. We also agree with Rothbard who made clear that wealthy elites are only able to profit from the masses and control world affairs by their connection to State power.

In 1966, when Quigley's book was published, there was still immense fear connected to communism, and this fear encompassed the Cuban Missile Crisis of 1962, the John F. Kennedy assassination which was in 1963, Malcolm X in 1965, Bobby Kennedy and Martin Luther King in 1968, the Vietnam War in the 70s, the gold standard which was finally destroyed in 1971, and Nixon's resignation from office in 1974. These were back-to-back significant world events that point to mass confusion amongst the public in the United States. It is very plausible that, in an attempt to find answers to the driving forces behind these perplexing events, authors would write their strong opinions in books and use Quigley's twenty-year study to support their theories. Some of these books, which sold millions to the public, helped expand several advocacy groups during this period such as the John Birch Society[23] and many others. Quigley was obviously caught in the midst of these growing controversies during these specific periods, but died soon after in 1977.

BUT, THERE ARE TWO important missing historical pieces to this elaborate puzzle we have yet to explore, and Quigley discusses both.

What we eventually realize within the context of our own experience is that history does repeat itself. For example, in his September 1990 speech to a joint session of Congress (shortly after the Berlin Wall came down announcing the end of Communism), President George W. Bush described his objectives for post-Cold War global governance in cooperation with post-Soviet states as a *"New World Order"* and, either knowingly or unknowingly, unleashed a brand new wave of panic. Hundreds of new theorists within months of that statement came out with their own version of this new order with televangelist Pat Robertson leading the pack with his new best selling book, *The New World Order*. Robertson's conclusion is that American imperialism incorporates everything from the Bilderberg Group to the Trilateral Commission covertly controlling government for the Antichrist. This is all to say that getting to the truth is not easy.

But, there are two important missing historical pieces to this elaborate puzzle we have yet to explore, and Quigley discusses both. The first one did not actually make itself apparent till after World War I and that was the enormous profits that could be made from war. The second one is equally sinister and it existed long before the Rhodes-Milner Group originated. This was the founding of the first central bank in 1690 and it was conspiratorial from the very beginning.

Next Month in the LMR— Part III: The International Bankers.

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Keeping Economics on Pace With the DIGITAL ECONOMY

Interview With Gene Balfour

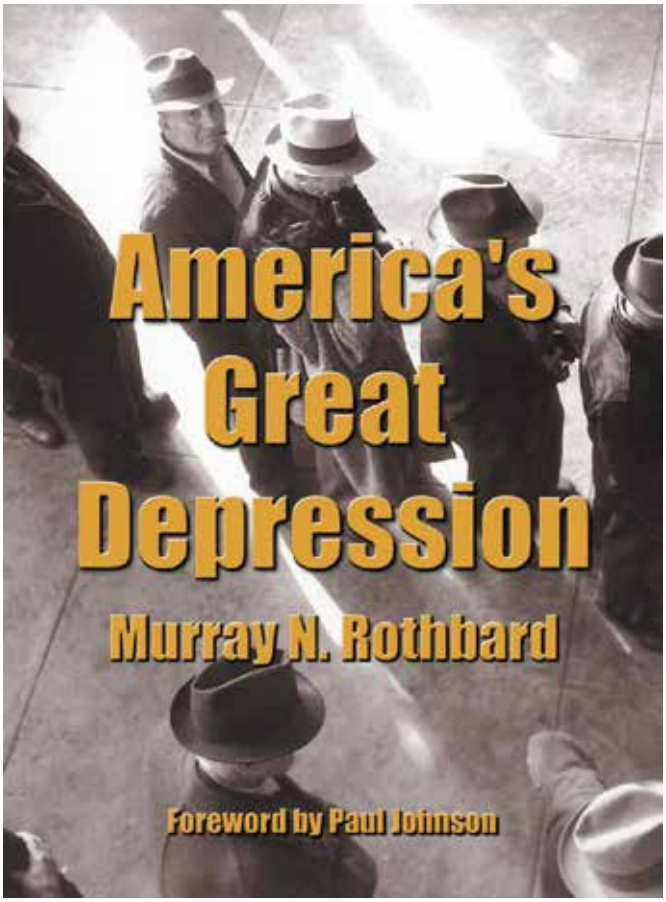
Gene Balfour spent 28 years as a top recruiter in the IT sector, interviewing more than 10,000 individuals for job placement and career planning purposes. In addition, he played a critical role in building a fledgling international consulting business into a successful operation that has improved the manufacturing productivity of over 100 plants located in the USA, Mexico, Brazil, and France. In 2017-2018, Balfour was the Chairman of the Ontario Libertarian Party, achieving the LP's best election performance in the history of Canada. He is currently a candidate with the People's Party of Canada (PPC), running for the Haliburton-Kawartha Lakes-Brock electoral riding.

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.

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

Gene Balfour: I was mowing my lawn one day in 2007 when I heard a radio announcer state that the Ontario Libertarian Party (OLP) was holding a meeting in Toronto later that day. I did not know what a libertarian was and looked it up on the Internet. When I learned that they wanted lower taxes through the reduction in government size, scope, and cost, I went to the meeting and invited myself into what turned out to be the OLP's Annual General Meeting. I spent two hours in the meeting and heard names like Mises, Hayek, and Rothbard. Soon thereafter, I bought my first "libertarian book," *America's Great Depression* by Murray Rothbard, and realized that I had entered a world of revisionist history and an alternative school of economic thought compared to what I had previously known from my academic past and mainstream press.

LMR: You shared with one of us (Murphy) on the recent "Contra Cruise" that you think fans of the free market should update their stock examples when discussing innovation.



"I bought my first 'libertarian book,' *America's Great Depression* by Murray Rothbard, and realized that I had entered a world of revisionist history and an alternative school of economic thought compared to what I had previously known from my academic past and mainstream press."

Rather than talking about the (relatively) ancient history of, say, the automobile displacing the horse-and-buggy, there are much more compelling and relevant examples. But before we get into this, can you first explain your business background so our readers will understand your perspective?

GB: I plan to highlight my career history from 1977 to 1981 with IBM Canada during which time I received 6 months of intensive classroom training in computer technology, business applications, and IBM's sales training. I was assigned to the Ontario Government Sales & Marketing Support Team in downtown Toronto and spent over 3 years in pre-sales and customer support focusing on over 20 Ontario Government ministries in an effort to sell new applications and IBM's Support Services to government departments so that IBM could ultimately sell more mainframe and mini computers.

In 1981, I joined Source EDP which was the largest IT Recruiting firm in the USA at that time. It was known for hiring "computer professionals" with sales experience (especially IBMers) and training them in "recruiting" sales. Every Recruiter worked on 100% commission and we very all motivated to work day and night to make high levels of compensation. For 28 years, I worked on straight commission as an IT Recruiter and served client organizations in every conceivable industry sector. During these years, I likely reviewed over a million candidate profiles and resumes, interviewed over 10,000 job candidates to service as many "job orders" from our diverse customer base, and placed over 1,200 people into new jobs. (None of these jobs were union jobs.)

In late 2009, one of my clients, an "IT-enabled Business Transformation Consulting

"My boss regularly bragged that I was the 'Wayne Gretzky' of recruiters and made sure that I was well compensated and acknowledged for my key contributions to the growth of the International Division.

firm," wooed me to join their Toronto office to establish a Recruiting department from scratch. My job was split between:

• supplying the local Sales Team with qualified Senior Consulting Specialists for "management consulting engagements" and for the planning and execution of a variety of IT-enabled projects for customers.

• Performing a similar sole for the fledging "International Division" that reported to my boss in Toronto. This division specialized in implementing a Global Template of core business applications that are found in every kind of automotive parts manufacturing plans. Our first major client was in the top 5 largest automotive parts manufacturing corporations in the world with over 300 plants in 32 countries with made 4 lines of automotive pasts.

• Staffing new business offices in the USA, Mexico, and Brazil.

Between 2009 and 2018, what began as a two-man operation because an international division with over 45 full time employees and over 120 sub-contracted consultants who competed over 110 template implementation projects and numerous other management consulting and IT engagements. My boss regularly bragged that I was the "Wayne Gretzky" of recruiters and made sure that I was well compensated and acknowledged for my key contributions to the growth of the International Division.

During those years, I was exposed to the cutting edge of emerging technologies, which industry journalists refer to as "The Digital Economy," "The Fourth Wave" of technology evolution, and "Industry 4.0" in the industrial sectors. In 2015, my employer rebranded the company as R3D Digital from R3D Consulting to reflect the shift on focus to Industry 4.0 in the manufacturing companies that we served.

LMR: And now that you've established your area of expertise, what advice do you

have for those trying to educate the public on the dynamism of free markets?

GB: The advice that I have to offer for this discussion pertains to people who have an interest in economics and the role of modern technology in affecting wealth creation, productivity at the enterprise level (as opposed to solely the individual level), and the job market at every level from the "low IQ" entry level through to senior management through nearly every type of knowledge worker (legal, medical included).

You often hear scoffers dismiss people those who claim that automation will replace people in the workplace and that jobs will become scarce. When people say "this time, its different," the scoffers dismiss that statement too because jobs are as plentiful now as ever. I contend that the impact of the 19 classes of technology that make up the infrastructure underpinning the Digital Age is infinitely more pervasive than anything mankind has ever known. What's more, the ability of Systems and Applications Architects to mix, match, and integrate any one or many of these 19 technology classes is beyond what anyone would have predicted even 10 years ago. The application possibilities are as numerous as the possible approaches to solving a Rubik's cube.

Let's complicate this discussion a bit more (as if it already does not have enough moving parts. At least, I listened to a podcast lecture on human IQ by Dr. Jordan Peterson. He revealed the practice on the US military to accept potential soldiers with an IQ of at least 83 because anyone with a lesser capacity to learn would absorb too many resources to train and supervise. In the private sector, the same finding applies. As wages rise through minimum wage legislation, the productive output of these workers cannot justify the higher wages. In addition, as the cost-reliability-flexibility of advancing technology improves, these workers become even more obsolete. In order for them to be retrained to use the modern technology to leverage their productive output, they would need the learning capacity to get up to speed quickly and function with little to no supervision.

"I contend that the impact of the 19 classes of technology that make up the infrastructure underpinning the Digital Age is infinitely more pervasive than anything mankind has ever known."

"Citizens who are living through the turbulent times that the Digital Age brings upon them will increasingly ignore economists who fail to become a student of the Digital Age and its implications."

An IQ of a least 100 like likely be needed in a few years to operate even the most "user friendly" technology. A much higher IQ, along with expertise in a specialized domain of knowledge, will be needed to leverage the more sophisticated tools that the Digital Economy will unleash.

So, my advice is primarily intended for lovers of economics. The Digital Age is evolving very rapidly. It has begun to turn our fundamental understanding of productivity and employment on its head. Economics must update their examples used in textbook or classroom discussions of employment and enterprise productivity, instead of basing these discussions on overly simplistic examples of technology investments made in the distant past. Citizens who are living through the turbulent times that the Digital Age brings upon them will increasingly ignore economists who fail to become a student of the Digital Age and its implications.

LMR: One of your takeaway messages seems to be that rather than innovation being confined to one particular tweak or invention, we have to realize that the entire approach to producing/delivering a particular service can be revolutionized when several different lines of innovation come together in a way that would have been virtually impossible to predict even in the recent past. On the Cruise, you mentioned the example of AI (artificial intelligence) and surgery. Can you explain for our readers?

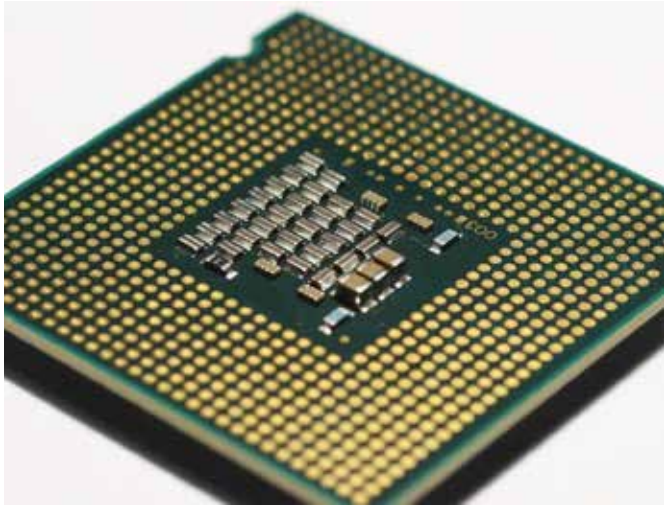
GB: A former client of mine, Steve, graduated from the University of Toronto in the late 1970s with a degree in Computer Science, which initiated a keen and life-long interest in Expert Systems that expanded into the domain of Artificial Intelligence. Steve progressed to a C-level software engineering executive job with a global technology company and was based in California for his final years before choosing retirement in 2017.

On a cruise ship in 2016, he met a brain surgeon from Florida. They became quick friends and shared stories about technology. The Doc said that all of his colleagues loved

to explore and master the emerging "tools of their trade" which included his ability to insert his hands into "tech gloves" that enabled him to control tiny robot-like instruments to perform a microsurgery with greater precision than can be performed manually. Every surgery is filmed digitally along with the discussions of the various medical team members. One goal of these technology and application investments is to apply AI to advance the speed and reliability on microsurgeries in the future.

Steve's contribution to the discussion was his past, current, and forecasted understanding of AI and the supporting "infrastructure" computer and communications technologies that have and will enable its advancement. For example, Steve fully expects that by 2050, a single computer processor and memory unit the size of a table top will be able to store and process every "lesson learned" from every recorded brain microsurgery dating back to 2015 and use it to perform a remote-controlled brain surgery from its processing center wherever it may be located.

Steve also surmised that virtually all knowledge-based professions will experience the same attention. Think lawyers, dentists, actuaries, and many more where these 19 domains of the evolving Digital Economy can be creatively applied by Systems and Applications Architects. For example, did you know that a nanobot currently exists at the experimental stage that can be injected into a human's bloodstream to identify disease markers for up to 130 known diseases? With our mapping of the human genome



"By 2050, a single computer processor and memory unit the size of a table top will be able to store and process every "lesson learned" from every recorded brain microsurgery dating back to 2015 and use it to perform a remote-controlled brain surgery from its processing center."

and ability to create genetically modified plants, how long will it be before a nanobot will be available to "cure" all of those 130 diseases? What seems like sci-fi today is lively to become "tomorrow's reality."

LMR: Finally, as your bio above indicates, you are currently running for office in Canada. What prompted you to do this, and how would you assess the prospects for liberty in Canada? We know for example that there has been some backlash against a carbon tax and other left-progressive technocratic controls.

"I had no expectation winning in any of these elections because our 'Less Government' message is unpopular in a country where over 30% are employed in the public sector."

GB: Thanks for asking this question. I have run as a Libertarian candidate in 5 provincial elections since 2010 for the Ontario Libertarian Party (OLP) and in one national election for the Libertarian Party of Canada (LPoC) in 2015. I was also Chairman of the OLP in the 2018 election, where I led the effort to attain candidates in 116 or 124 electoral riding—a record in Canada for any Libertarian party.

I had no expectation winning in any of these elections because our "Less Government" message is unpopular in a country where over 30% are employed in the public sector, and the majority of the population suffer from Stockholm Syndrome—in other words, they are financial slaves to governments until Tax Freedom Day and can't imagine life in Canada without some in authority to "take care of them" from cradle to grave.

I am currently the PPC (People's Party of Canada) candidate in the Haliburton-Kawartha Lakes-Brock electoral riding (my home riding and where I ran year as an OLP candidate). As a new political party, the PPC is relatively unknown to the majority of Canadian voters. As such, fund-raising is a challenge and attracting volunteers who remain committed to the election campaign is nearly impossible. To make matters worse, the regulations for complying to elections are enforced by Elections Canada (a federal government department) and they strongly favor large, well-funded, and well-organized political parties who have held power in the past—the Liberals and Conservatives. The barriers to entry into the national political arenas are high for all of the other 13 smaller political parties that are registered with Elections Canada.

My riding has a long history of elected Conservatives. It is a large rural riding with a large population of farmers, retirees from the greater Toronto area, many workers in the

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trades, and a large population of low-income residents. My main campaign efforts are focused on increasing the public's awareness of Maxime Bernier and the PPC. It's largely "missionary" work as it was the six times I ran as a Libertarian.

I believe what Andrew Breitbart said: "Politics is downstream of culture" and my task is to influence public political discussion so that the political culture in my riding may shift to include the merits of Less Government over the threat and real consequences of excessive government expansion to which Canadians have been subject over the past 50 years, since Pierre Elliot Trudeau reigned as Canadian first truly socialist prime minister.

I was selected to be the candidate by the PPC HQ and the local Riding Association. I chose the PPC over the LPoC led by Tim Moen for several reasons. For me, being "Libertarian" is a 'philosophy for living in community with others.' Politically, Libertarians like me act to defend and protect individual persons (their mind, body, and efforts) and their property from intentional and unwanted harm and aggression imposed by others, including those employed by the state. It does not require membership to a party with "Libertarian" in its name. Not all parties that have 'Libertarian" in their name believe in the same "Libertarian" values.

The Peoples Party of Canada was founded on Libertarian Conservative principles: Personal Responsibility, Individual Freedom, Fairness and Respect. You will see that all of the PPC policies are grounded in these principles.

I ran as the Ontario Libertarian Party (OLP) candidate in this riding in June 2018. I remain an OLP member because it is the best choice for me at the provincial level. The Libertarian Party of Canada (LPoC) is the national party. I have not "turned against" them, but simply chose a party and leader that better fits my libertarian values and goals.

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EVENTS & ENGAGEMENTS

NOTE: MANY OF THESE EVENTS ARE OPEN TO THE PUBLIC. CONTACT US FOR FURTHER DETAILS.

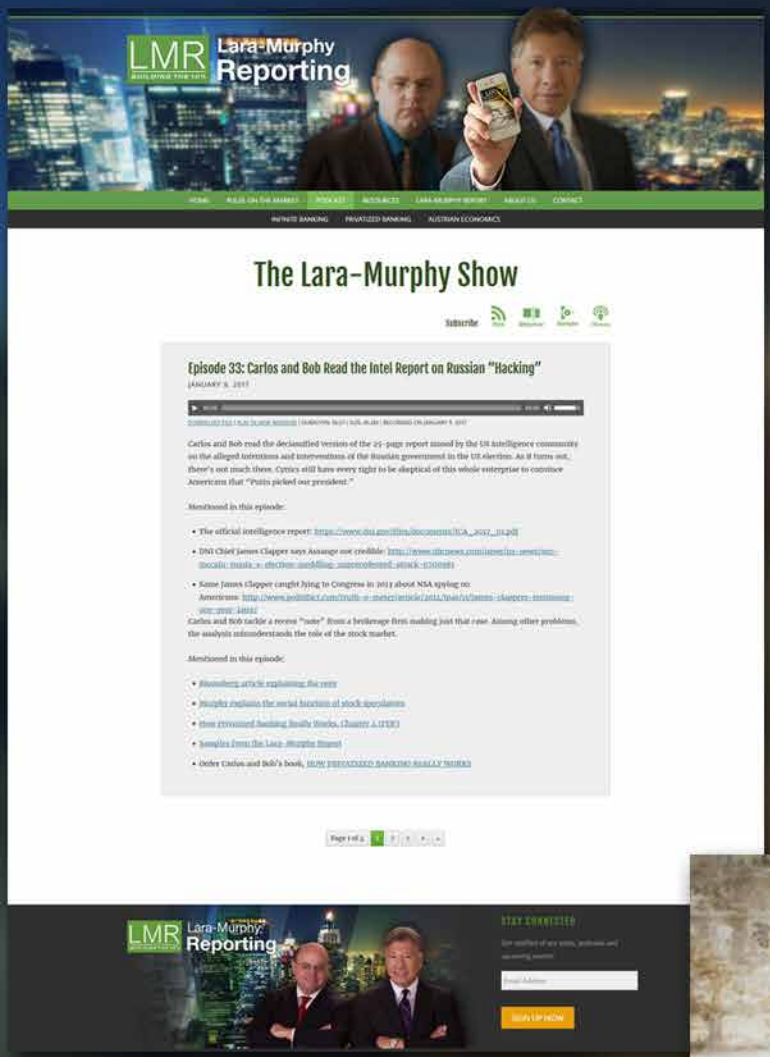
JULY 14-20, 2019
AUBURN, AL

Murphy presents on Austrian economics at Mises University.

SEPTEMBER 14, 2019
SEATTLE, WA

Murphy speaks at Mises Institute event on Political Economy.

SOME EVENTS MAY BE CLOSED TO GENERAL PUBLIC.
FOR MORE INFORMATION ON EVENTS CONTACT: RPM@CONSULTINGBYRPM.COM



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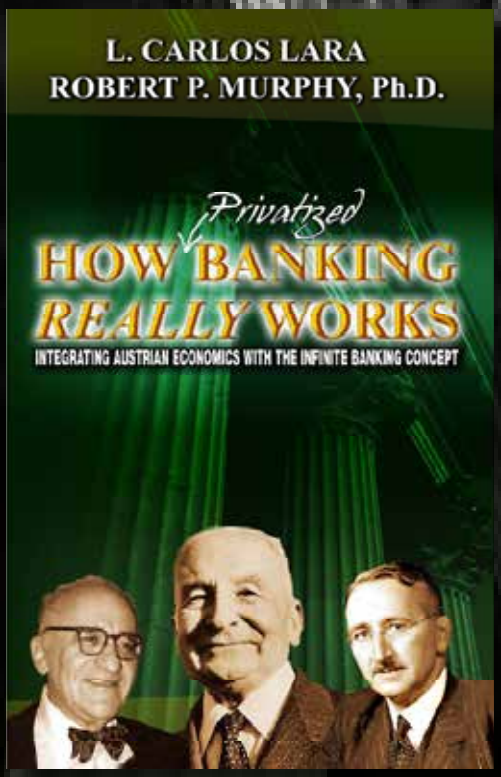

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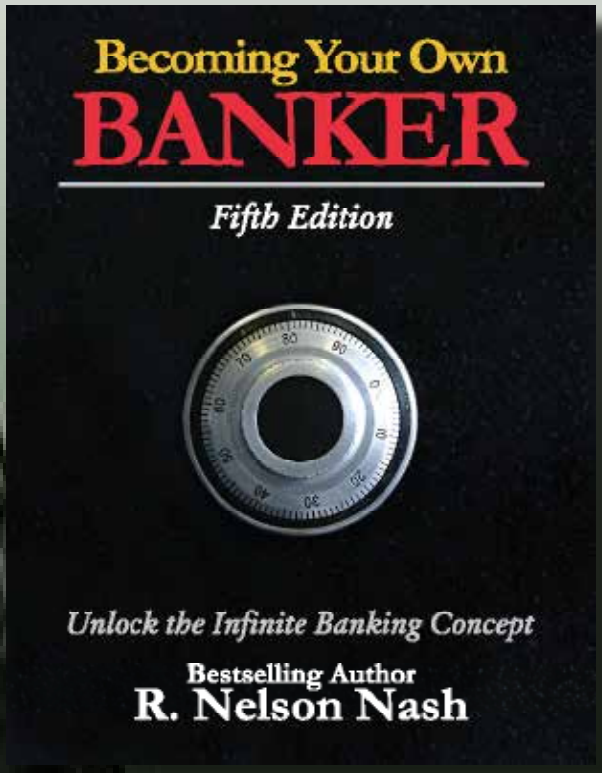

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