LMR

BUILDING THE 10%

JANUARY • 2015

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LARA-MURPHY REPORT

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ABOUT LARA & MURPHY

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

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

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

Murphy is Senior Economist at the Institute for Energy Research, and a Research Fellow with the Independent Institute. He lives in Nashville, TN.

LMR

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Can it be that hard?

We all certainly know what the problem is. Or at least, we all should know by now. Certainly nothing could be clearer to us than the stark realization that the strategy our leaders are advocating and implementing has helped no one except a small elite group of politicians, bureaucrats and bankers at the expense of everyone else. It is an age-old problem that has grown only worse with the passage of time.

But what if there was a solution to government intervention and our current money madness? Would you hesitate one minute in wanting to know what it is? Of course not! No one would. The problem is so pervasive that a solution seems impossible and yet, there is a solution. The solution's only requirement is the action of a single person acting in a manner to help only himself or herself, but in so acting ultimately helps all of society.

The solution can be found in the book *"Becoming Your Own Banker"*—a book that could only have been written by a student of Austrian economics. What we discovered was that this solution goes completely around *"fractional reserve banking"* and in so doing mitigates inflation. If enough of us implement it we can not only influence public opinion to have a say in our monetary policy, but as each individual practices the strategy we all work together at starving the beast in the process.

This is the essence of *Building the 10%*—a movement whose meaning answers the question of what one person can actually do that will make a difference in an economic environment that has gone terribly awry while advancing his or her own economic benefits in the here and now.

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

— How Privatized Banking *Really* Works

The idea is so rational that it should not at all be difficult to grasp. All that is required is an open mind, the understanding of a few undeniable economic principles, sincere conviction, common sense, imagination, courage and above all, discipline. Let us not forget that good ideas spread like viruses and this is a great idea. All practitioners of the *"Infinite banking Concept (IBC)"* have the unique opportunity of making small things make a big difference.

History proves to us repeatedly that the unshakable beliefs of the minority soon become the beliefs of the majority. In the same manner we too can achieve the *tipping point,* so we urge you to continue to spread the message. Although the average American's commitment to the principles of individualism and private property grow weaker with each generation, even so there is a rich heritage that we hope to rekindle. We can succeed. And we *must* try.

Yours truly,

Carlos and Bob

PULSE ON THE MARKET

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

Russian Reverse

RUSSIA CUTS RATES, RUBLE ROLLS

Just last month we reported that the Russian central bank has raised its benchmark interest rate from 10.5 to 17 percent, in an effort to halt the slide of the ruble. (With collapsing oil prices—a key Russian export—the international demand for the ruble had fallen sharply in 2014.) Suddenly this month they reversed course, dropping the interest rate down to 15%. The ruble fell 2% against the U.S. dollar on the surprise announcement.

Unlike other major powers that are still in a period of relative tranquility, the Russian economy last year suffered from consumer price inflation above 10 percent and is on the verge of entering a recession, at least measured in conventional output. (The Russian unemployment rate is actually quite low.) Western sanctions against Russia obviously play a large role in their specific predicament, but the interventionist policies of Putin's authoritarian regime certainly don't help.

Printing for Prosperity

FED OFFICIAL JUST WISHES THINGS WERE MORE EXPENSIVE

In early January, Chicago Fed president Charles Evans said in an interview on CNBC (their transcript is all CAPS):

"EVANS: WHEN I ANSWER THE QUESTION THAT'S POSED TO US ON WHAT APPROPRIATE MONETARY POLICY IS IN ORDER TO HIT OUR OBJECTIVES, IT COMES OUT FOR ME THAT WE SHOULDN'T BE RAISING RATES BEFORE 2016. IF THINGS TRANSPIRE AS I'M EXPECTING. EMPLOYMENT HAS BEEN GOOD. I'VE BEEN EXPECTING THAT. I'M HOPING THAT INFLATION IS GOING TO PICK UP. AND I THINK WE NEED TO SEE MORE OF THAT. SO, YEAH, I THINK I'D LIKE

PULSE ON THE MARKET

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

TO HAVE MORE CONFIDENCE THAT WE'RE GOING TO GET TO 2% BY 2016 WOULD BE GREAT. 2017 SEEMS LIKE THE MINIMAL ALLOWABLE THING. SO I THINK TO GET THERE, I THINK WE NEED MORE CONTINUED ACCOMMODATION."

Nothing earth-shattering in the grand scheme at this point, but it's fun to occasionally remind ourselves that price inflation is not a regrettable side effect of their monetary policies. No, the people running the system here in the U.S. are quite openly *trying* to weaken the dollar and make consumer prices rise.

WORLD'S BANKER CHINA

BANK OF CHINA MAKES MAJOR LOANS

The Chinese central bank is displacing the traditional big kids on the block like the IMF and World Bank. According to a report in Bloomberg:

"Beijing's move to bail out Russia, on top of its recent aid for Venezuela and Argentina, signals the death of the post-war Bretton Woods world. It also marks the beginning of the end for America's linchpin role in the global economy and Japan's influence in Asia.

…

Beijing's $24 billion currency swap program to help Russia is a sign of things to come.... The same goes for China's $2.3 billion currency swap with Argentina and its $4 billion loan to Venezuela. In the Chinese century, bad behavior has its rewards."

We recognize that its difficult to imagine the United States dollar no longer being the reserve currency of the world, or the U.S. military no longer being able to dominate the planet. But by the same token, it was probably difficult for most people in England in (say) 1912 to

PULSE ON THE MARKET

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

realize that the classical gold standard would soon be shattered, and that the mighty British Empire was also headed to the grave.

The difficulty for investors who are trying to navigate these choppy waters is that the "unthinkable" may happen very quickly. The Chinese are currently holding about $1.3 trillion just in U.S. Treasury securities. If they were to suddenly dump a large portion of them—either as a purely financial move or an act of economic warfare—the effects would be startling.

It's true, markets aren't expecting such a move. But then again, markets weren't expecting the U.S. housing market to crash, they weren't expecting the Swiss National Bank to peg their currency to the euro back in 2011, and they weren't expecting the Swiss to abandon the peg earlier this month. The "wisdom of crowds" is sometimes the foolishness of the masses, and the "smartest guys in the room" sometimes suffer the biggest losses on their portfolios.

Central Bankers Gone WILD

by Robert P. Murphy

Since the early days of the *Lara-Murphy Report,* we have been criticizing the mad inflationary policies of the Federal Reserve. Yet this may have led some readers to think that central bank recklessness was a uniquely American phenomenon. Unfortunately, central banks around the world have been following the same Keynesian monetary prescription. In this article, I will explain the recent surprise announcement from the Swiss National Bank (SNB), as well as the major European "quantitative easing" (QE) package announced the following week.

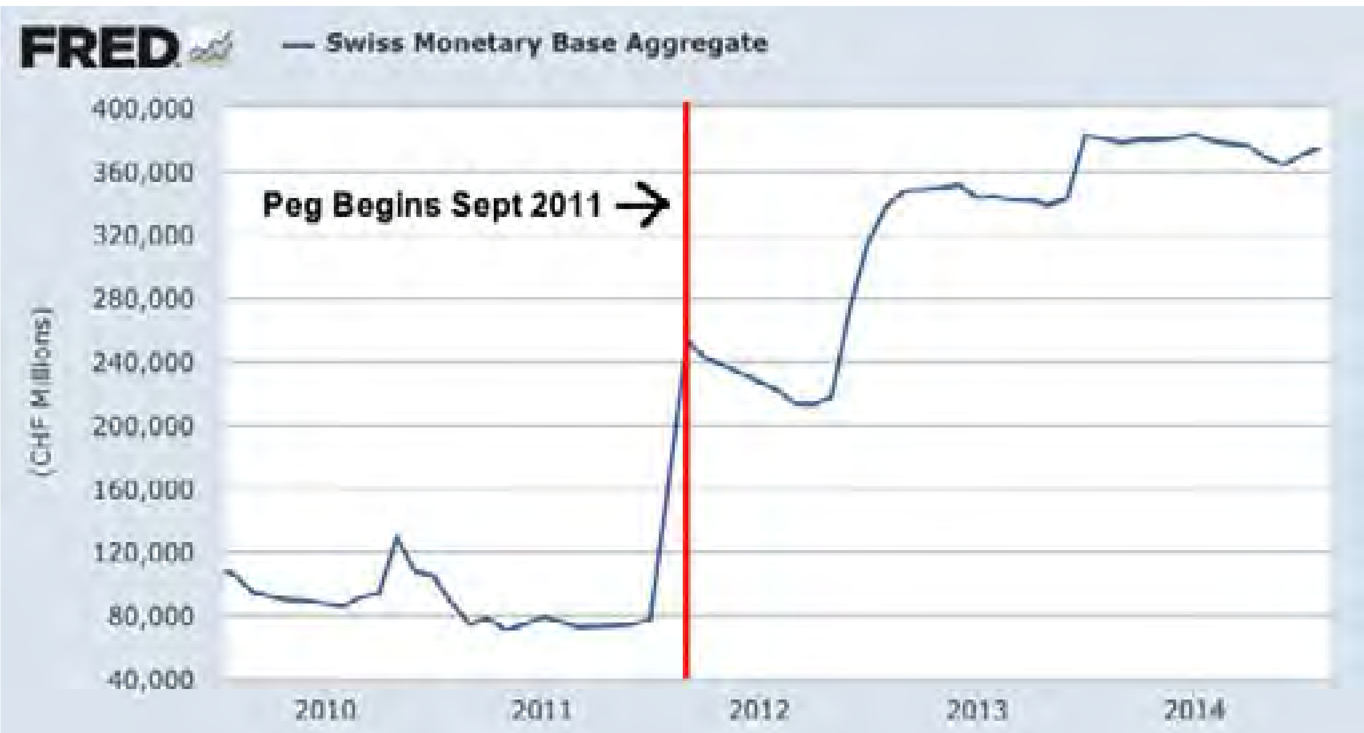
The Swiss Peg

On January 15, 2015, the SNB abandoned the peg of its own currency to the euro that it had established back in September 2011. Up until this surprise announcement, the SNB had held the Swiss franc *down,* which is the same as saying that it had propped the euro *up,* at the level of 1.2 Swiss francs per euro. Immediately after the SNB dropped the peg, the Swiss franc appreciated some 30% against the euro—rising to parity—while the Swiss stock market dropped about 10% on a benchmark index.

To understand why the SNB abandoned the peg, consider Figure 1 below, which shows the Swiss "monetary base" which is close enough for our purposes to the size of the Swiss central bank's balance sheet:

Immediately after the SNB dropped the peg, the Swiss franc appreciated some 30% against the euro.

Figure 1



As Figure 1 shows, the Swiss monetary authorities implemented the peg *after* they had already *tripled* their balance sheet in mid-2011. At the time, investors had been fleeing out of the Eurozone and into the perceived safety of Swiss assets, which—if left unchecked—would have driven the Swiss franc sharply up against the euro.

In standard Keynesian fashion, the Swiss monetary authorities didn't want their currency getting too strong, since that makes it harder to export and (harkening back to old mercantilist notions) Keynesians like exports, as this boosts GDP in the national income accounting identity. Thus, in September 2011 the Swiss authorities made a stern pledge to prevent the euro from falling below 1.2 Swiss francs. They announced to the world that no matter how many Swiss francs they had to (electronically) create with which to buy euros, they were willing to do so, to make sure that the price of a euro would never fall below 1.2 Swiss francs.

I should pause the narrative for a moment to underscore just how upside-down things have become since the financial crisis of 2008. Originally, central banks would acquire reserves in order to anchor the value of their currency in a *stronger* asset. For example, under the classical gold standard, monetary authorities would acquire stockpiles of gold, to reassure world investors that they had the ability to keep their own national currencies at a fixed exchange rate

In standard Keynesian fashion, the Swiss monetary authorities didn't want their currency getting too strong.

> **The Swiss central bankers had to convince people that they seriously were going to dilute the value of their money as much as they promised, no matter how much the market might fight it.**

with the precious metal. In more modern times, countries with a bad history of inflation might acquire large stockpiles of U.S. dollar assets, to reassure investors that their currencies were as good as the USD.

Yet with Switzerland, the Keynesian logic in the face of a prolonged slump forced them to acquire large amounts of euros in order to "reassure" investors that the Swiss currency was as *weak* as the euro. The Swiss central bankers had to convince people that they seriously were going to dilute the value of their money as much as they promised, no matter how much the market might fight it. (They eventually also instituted *negative* nominal interest rates on bank deposits, another example of pushing the Keynesian logic into absurdity.)

As Figure 1 shows, this policy actually worked for a while. Once investors thought the Swiss franc would have a constant exchange rate vis-à-vis the euro, the incentive to dump euros and acquire francs was reduced. Thus, perhaps paradoxically, announcing the firm peg actually allowed the Swiss authorities to *reduce* the size of their swollen balance sheet, from the start of the peg up through May 2012.

But that was merely the calm before the storm. In May 2012, investors again wanted to flee the euro and embrace the Swiss franc. The only way to keep the peg was to inflate like crazy—creating more Swiss francs with which to satisfy the demand and keep the euro from sinking. That's why the Swiss monetary base soared once again in mid-2012.

Why the Swiss Dropped the Peg

Measured from a starting point during the financial crisis of 2008 (notice that that is farther back than show in Figure 1), the Swiss monetary base has expanded by a *factor of eight* in this crisis. To understand how enormous this expansion was, consider Figure 2 (taken from a FT article[1]), which shows the balance sheets of major central banks as a percentage of their total economies' outputs:

artificially holding down the franc was to create more francs and use them to buy euro-denominated assets, thus maintaining (for a while) the exchange rate of 1.2 francs to the euro. But if they had to abandon the peg at some point, the euro would fall. Since the SNB holds euro assets while it has issued franc liabilities, a fall in the euro vis-à-vis the Swiss franc would reduce their equity. For a big enough move, the SNB could literally go bankrupt, in an accounting sense.

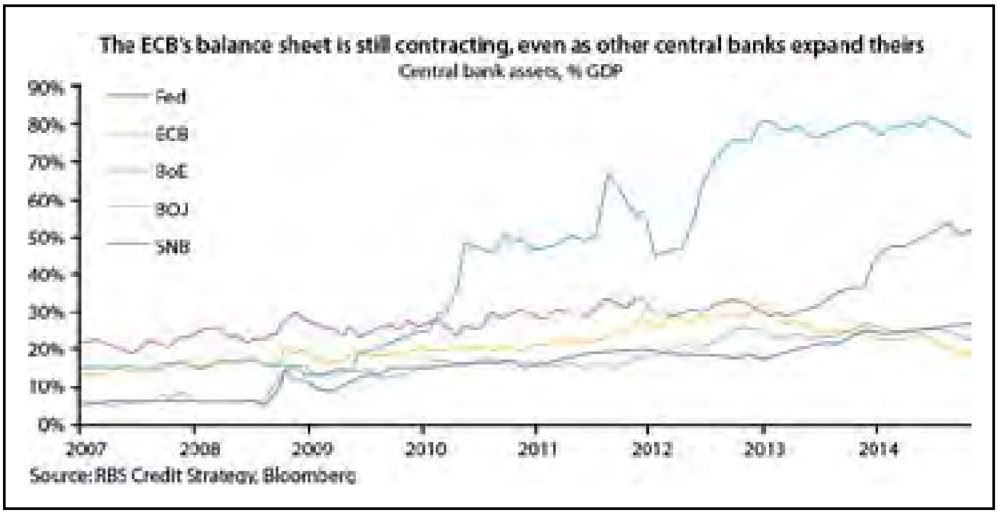


Figure 2

As Figure 2 shows, the SNB had inflated its central bank balance sheet to almost 80% of its entire GDP, a figure much higher than even the Bank of Japan and which dwarfs the Fed, ECB, and Bank of England. Because the European Central Bank (ECB) was getting ready to embark on a major quantitative easing program, the Swiss said "enough is enough" and threw in the towel. They realized they couldn't keep chasing the euro in a race to the bottom.

Specifically, the most obvious danger of the Swiss policy was exchange rate risk: If and when they *did* drop the peg, the SNB would take a huge capital loss on its assets. Think about it: The actual mechanism by which the Swiss were

The SNB had inflated its central bank balance sheet to almost 80% of its entire GDP, a figure much higher than even the Bank of Japan and which dwarfs the Fed, ECB, and Bank of England.

The ECB Plan for QE

A week after the SNB bombshell announcement, the ECB announced a bigger than expected package of QE. Specifically, they committed to buying 60 billion euros worth of net assets every month at least through September 2016. The QE package is open-ended, meaning that they will continue with the purchases (beyond the 1.1 trillion euros already pledged) until conditions warrant a cessation of the policy. The ECB's program is thus very similar to the last round of QE from the Fed. To repeat: Knowing that something like this was coming, the Swiss bailed and let their currency appreciate against the euro.

The most obvious danger of the Swiss policy was exchange rate risk.

Conclusion

In the face of all the jargon from Nobel laureate economists and razor-sharp financial analysts, we need to take a deep breath and repeat after me: Printing new money out of thin air over the course of years *does not make countries wealthier*. The Keynesians assured us that the reason the Great Depression lasted so long, was that the arcane gold standard and timid deficit spending in the early 1930s tied the hands of policymakers.

Well, governments have run unprecedented peacetime deficits, and Figure 2 shows their willingness to dump boatloads of new money into the financial markets. *But it isn't working.*

The tragic irony in all of this is that if any government/central bank *in isolation* had adopted these types of policies, their interest rates would have soared and/or their currency would have cratered. Yet since they have all been engaged in a coordinated attempt to debase their respective currencies, the central banks have been able to partially mask the consequences of their actions.

Although the clever maneuvering has postponed the inevitable collapse, the prolonged period of ever more inflation (and rock-bottom interest rates) simply means that the final reckoning will be that much worse.

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References

1. See: http://www.ft.com/intl/fastft/263142/why-did-snb-really-drop-its-peg-guest-chart.

No 1099s Here

by L. Carlos Lara

It's 1099 season again and businesses, big and small, are cranking them out like crazy, but they will be receiving an onslaught of them too. With each 1099 form that is either issued or received, the third copy, we all know, goes to the Internal Revenue Service. This is how we know the I.R.S. has its eye on us, an encroachment none of us enjoys. Yet not only businesses are inundated with 1099s this time of the year, so are individual households. These days it seems as though any money that flows in or out of any currency receptacle triggers one of these. However, there is one place from which money flows in and out that, when handled correctly, never generates one of these unwanted tax forms. That place is a dividend-paying *Whole Life policy.*

If learning this for the first time comes as a big surprise, perhaps it's time to look more carefully at this much-maligned financial product to learn more about this tax-favored benefit in addition to some of its other virtues, for when it comes to *privacy,* none is more private than Whole Life insurance. A case in point is what happens to me each tax season. At about this time of the year, my CPA prepares numerous tax documents for me including my personal returns. While he has complete access to all of the financial information he requests from me in order to prepare the required tax filings, there is never a request or the need to know how much money goes in and out of the cash values of my whole life policies. Consequently, he has no idea how much money I actually have stored in these, but more importantly neither does the I.R.S, nor do they even care—*unless one of them has matured, or has been surrendered.* Only in those two cases would there be a 1099 lurking. However, as I stated earlier, outside of these two contingencies, so long as I have properly handled my withdrawals and

With each 1099 form that is either issued or received, the third copy, we all know, goes to the Internal Revenue Service.

There is one place from which money flows in and out that, when handled correctly, never generates one of these unwanted tax forms. That place is a dividend-paying *Whole Life* policy.

His Q&A booklet asks of me every conceivable question having to do with the ebb and flow of all of my monetary transactions— everything that is—except the ins and outs of my Whole Life policies.

policy loans, there should never be a tax issue.

Specifically, the strategy to avoid these possible tax consequences is to never withdraw dividends past the point of the "cost basis" in the policy—how much you've put in to date through your out-of-pocket premium payments. If you find yourself needing more money than you've put in historically, you *can* still get it, but at the break-even point you must switch away from withdrawing dividends and begin using policy loans. This all makes sense from a standard accounting perspective, and is not a gimmick; a policy loan is not "taken out" of the policy, and it's not really income. (Instead, the insurance company is loaning you money on the side, with your policy's available cash value serving as the collateral.) This is the method by which you can still "use" the cash inside your policy, even past the point at which you may have withdrawn as much in dividends as your cost basis.

I realize the above may sound quite complicated to a novice, but I assure you, it's only because you are unfamiliar with how a Whole Life policy works. In just a single meeting, a qualified financial professional can teach you all about it and you will see that the logic for the I.R.S.'s treatment is quite straightforward.

Most other assets, financial products, and all tax qualified plans are completely transparent to the Federal Government and ultimately taxable.

When looking over my tax organizer provided by my CPA in order to prepare my returns, it's easy to see that virtually no other part of my life is left uncovered. His Q&A booklet asks of me every conceivable question having to do with the ebb and flow of all of my monetary transactions— everything that is—except the ins and outs of my Whole Life policies.

There are 81 questions in this booklet all broken out into categories such as:

- **Personal Information**
- **Dependent Information**
- **Purchase, Sales, and Debt Information**
- **Income Information**
- **Retirement Information**
- **Education Information**
- **Health Care Information**
- **Itemized Deduction Information**
- **Miscellaneous Information**

Furthermore, the questions in this pamphlet are very direct and to the point. Such as, *"Did you make any withdrawals from an IRA, Roth, Keogh, SIMPLE, SEP, 401(k), or other qualified retirement plan?"* or, *"Did you make any contributions to an IRA, Roth, Keogh, SIMPLE, SEP, 401(k) or other qualified retirement plan?"* Questions such as these cover not only tax qualified plans, but all other transactions related to real estate, securities—such as stock and bonds—and even foreign negotiations involving purchases and investments. Plus, they want to see the statements to back them up.

- **Forms W-2 for wages, salaries, and tips**
- **All forms 1099 for interest, dividends, retirement, miscellaneous income, Social Security. State or local refunds, gambling winnings, etc.**
- **Brokerage statements showing investment transactions for stocks, bonds, etc.**
- **Schedule K-1 from partnerships, S corporations, estates and trusts.**
- **Statements supporting educational expenses, deductions, or distributions, including any Forms 1098-T, 1098-E, or 1099-Q**
- **All Forms 1095-A for the advance payment of the Premium Tax Credit for lower cost health care coverage under healthcare.org**
- **Statements supporting deductions for mortgage interest, taxes, and charitable contributions, including any 1098-C**
- **Copies of closing statements regarding the sale or purchase of real property.**
- **Legal papers for adoption, divorce, or separation involving custody of your dependent children.**
- **Last year's tax returns**

In my finances, there is no nook and cranny left hidden except for one—*Whole Life insurance.* This is why it is the ideal private warehouse for my money. But what is really fantastic is how easily one can access that cash when needed. In fact, you can have the money wired directly into your bank account by the insurance company in approximately 24 hours or sent to you by mail in check form in a couple of days—and if you've handled things properly, *tax-free!* No need to report it and it is perfectly legal. This is why life insurance, and in particular, Whole Life, is the perfect tax-favored repository when the need for cash arises.

Taking a closer look at this unique financial structure is worth every bit of the time invested in doing so. This is especially true when that study is combined with Nelson Nash's Infinite Banking Concept (IBC) as outlined in his book,

But what is really fantastic is how easily one can access that cash when needed.

It only takes a quick study of the financial strength of life companies, especially during times of economic crisis, to easily convince us of their security.

Becoming Your Own Banker. Next, you should read our book, *How Privatized Banking Really Works.* Here in this ***LMR*** article we can only scratch the surface of its benefits. But for starters, it behooves us to know that a life insurance policy is a private contract between an insurer and an insured, or owner of the policy. It also helps to know that life companies are regulated by the individual states, not the federal government. When the contract is a Whole Life policy contract we find that the policy contains certain elements that are definitively guaranteed by the insurance company. This is immensely comforting in the type economic environment we live in. It only takes a quick study of the financial strength of life companies, especially during times of economic crisis, to easily convince us of their security. This is why the Whole Life product is seen as the best financial safety net to support the uncertainty of our financial future.

Furthermore, the guaranteed minimum growth in cash value spelled out in the con-

tract gives the policy a solid foundation to build upon, as the tax-free dividends paid out every year are re-invested in the policy. Although these dividends are not guaranteed, financially strong insurers pride themselves in always having paid a dividend for over a century. Since these dividends are paid from the surplus of the insurance company, once that dividend is issued and you reinvest it in your policy, that gain is locked-in and cannot go down, even if the insurance company's assets perform poorer than expected next year. In other words, there is never any negative market volatility to contend with. This makes for the ideal compounding formula because you never lose money as your cash value is growing.

The low fees, creditor protection, and easy liquidity these policies offer are additional benefits that make them extremely desirable for all those who value flexibility and control of their own asset. So what all this adds up to be is the near perfect financial platform for superior cash management purposes. From a sound financial base such as this, all of the big-ticket purchases of life can be easily financed while growing one's stockpile of money. Undoubtedly, this is one of the best-kept secrets in America, shielded only by the public's misunderstanding of how Whole Life insurance actually works. Isn't it high time to start seriously looking under the hood of these fabulous tax beneficial instruments?

Conclusion

Of course, individuals and businesses seeking to understand all of the unique characteristics of these incredible policies and how they must be *specially designed* for cash management purposes should contact a knowledgeable financial professional such as an *Authorized IBC Practitioner.* And tax season is absolutely the best time to do it. Not only do you need someone qualified to initially design the policy correctly, but you also need to be reassured about the proper way to use it over time, in order to retain its tax advantages. The process is not mysterious, but you definitely want to be working with someone knowledgeable to get started.

As you start to send out those dreaded tax forms or begin receiving them, think about what I have said here regarding dividend-paying Whole Life and prod yourself to look into one right away. And, remember, when it comes to dividend-paying Whole Life—*no 1099s here!*

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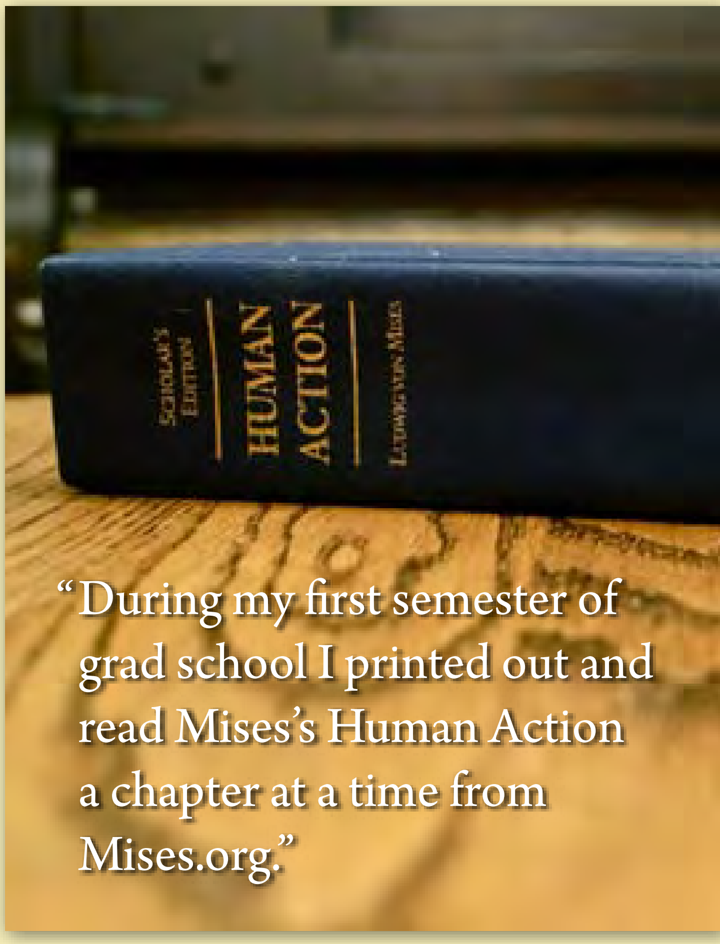
Learn from the Past... Hope for the Future

Interview with Art Carden

Art Carden is an Assistant Professor of Economics at Samford University in Birmingham, Alabama. He is also a Senior Research Fellow with the Institute for Faith, Work, and Economics, a Research Fellow with the Independent Institute, and a Senior Fellow with the Beacon Center of Tennessee. His research has appeared in academic journals including the *Journal of Urban Economics, Public Choice, Contemporary Economic Policy,* and *Business and Politics,* and his commentaries have appeared on Mises.org, USNews.com, and ForeignPolicy.com as well as in newspapers like the *Tennessean,* the *Birmingham News,* the *Memphis Commercial Appeal,* the *Los Angeles Business Journal,* the *Orlando Business Journal,* and numerous other outlets.

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

Art Carden: I was an undergraduate at the University of Alabama with some libertarian leanings, and one of my professors suggested I check out the Ludwig von Mises Institute in Auburn. I wasn't able to attend Mises University as an undergraduate because I was in the marching band, but I attended the Austrian Scholars' Conference in 2001 and began reading extensively and earnestly in the Austrian tradition when I arrived in Saint Louis to start graduate school. The Murray Weidenbaum Center at Washington University in Saint Louis was cleaning out its book collection, and I picked up many of the volumes from the department's mailroom. Two of the books were Ed Dolan's edited volume *Foundations of Modern Austrian Economics* and Ludwig Lachmann's *Capital, Expectations, and the Market Process.* I read these in



"This is broadly consistent with state-level research showing that Walmart does not, on net, destroy small business establishments."

my spare time, and during my first semester of grad school I printed out and read Mises's *Human Action* a chapter at a time from Mises.org.

LMR: You've published several papers on the company Walmart, which is a frequent target of attacks coming from both the Left and the Right. Can you summarize some of the more popular accusations, and what you found in your research?

AC: The most common accusations against Walmart are that it destroys communities, destroys small businesses, lowers wages, and destroys jobs. There is some evidence that retail payrolls and retail employment are lower than they would otherwise be were it not for Walmart's presence, though there is a technical debate on how to best model Walmart's entry and effects. At the same time, a recently-released NBER Working Paper shows that large firms and large establishments pay a wage premium, and the authors of one of the most credible Walmart-and-employment studies caution readers to note that they are measuring a counterfactual: what would retail employment have been without Walmart? Further, they note that since labor markets are extremely competitive, the displaced retail workers end up in other parts of the economy. This is broadly consistent

with state-level research showing that Walmart does not, on net, destroy small business establishments.

Even if retail payrolls are a bit lower as a result of Walmart entry, savings from access to Walmart are much larger than the reduction in total payrolls. Charles Courtemanche and I estimate that directly through their own low prices and indirectly through their effects on competitors' prices, Walmart Supercenters alone saved the average household $177 in 2002. Added up across the country, this is multiples of the estimated reduction in retail wages. In that paper (published in the *Journal of Urban Economics* in 2011), we also estimated that Walmart Supercenters explain a sizeable chunk of the increase in obesity in the United States between the late 1980s and early 2000s, but the additional obesity-related health costs were only equal to about 5.6% of the savings people enjoyed from Walmart Supercenters' impact on prices. It's possible people might have lower BMIs [Body Mass Index] if we got rid of Walmart Supercenters, but it's also true that I'd weigh less if I cut off one of my arms. I doubt anyone would advise that as a weight-loss strategy.

Our early work on Walmart looked at the company's effect on social capital, individual values, and leisure activities. This gets at the idea that the company destroys communities, that advancing capitalism makes people more conservative or more liberal, and whether Walmart-related savings on some goods change people's leisure patterns. We find that Walmart doesn't destroy communities (as measured by Robert Putnam's social capital measures collected for his 2000 book *Bowling Alone*) or influence people's values, but we think it's interesting that

"In graduate school, I worked closely with 1993 Nobel Laureate Douglass C. North, who described Friedrich Hayek as the most important economist of the 20th century."

"In recent work on the history of general merchandise retail I've seen how the insights of Lachmann, Kirzner, and other Austrians help us explain social change."

there's a little bit of evidence that Walmart entry helps people do more "high culture" stuff. We interpret this as a result of Walmart-related cost savings, but it will be interesting to see if this holds up to alternative measurements and new sources of data.

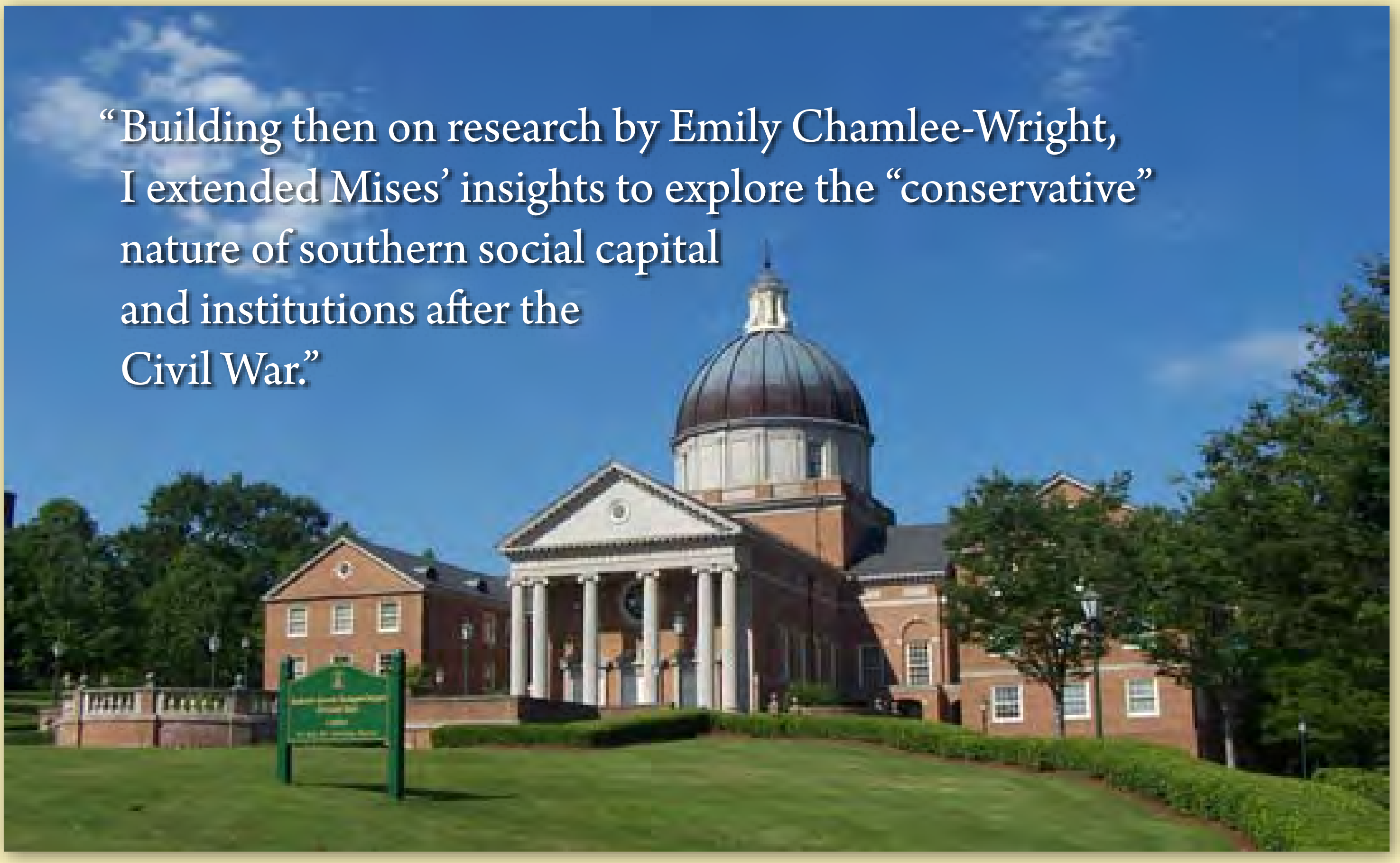
In 2014, we published a paper showing that incumbent grocers actually raise prices in response to entry from Costco; we interpret this as evidence that Costco's competitors are going after price-insensitive shoppers who value high-amenity shopping environments (like racecar shopping carts and gratis cookies for kids at Publix, for example). We have two ongoing projects that should be finished in 2015. The first measures the effect of Walmart Supercenter entry on food security (measures of access to food), and the second is an Austrian-influenced entrepreneurial history that explores the careers of Sam Walton and warehouse club innovator Sol Price.

I could go on for pages upon pages. There's a very, very large body of literature on Walmart that I summarize in a chapter in the *Routledge Handbook of Major Events in Economic History* (available online as Independent Institute Working Paper #78) and that Charles Courtemanche and I summarize in a forthcoming contribution to the *Elgar Handbook of the Economics of Retailing and Distribution.*

LMR: Another one of your subject areas is the economic history of the American South. (For our foreign readers: This is the southern region of the United States, not to be confused with the continent of South America.) Can you give our readers some of the highlights? Are there common misperceptions here?

AC: The South is a difficult nut to crack. My dissertation work looked at the relationship between racist violence (as measured by lynching) and Southern development, and there was some evidence that this mattered. I interpreted this as one of the ways in which the legacy of slavery manifested itself in a pathological institutional environment. Christopher J. Coyne and

"Building then on research by Emily Chamlee-Wright, I extended Mises' insights to explore the "conservative" nature of southern social capital and institutions after the Civil War."



I picked up on this in an analysis of the 1866 Memphis Race Riot that appeared in *Public Choice* in 2013, and it's something I hope to revisit in greater detail when the Walmart work is done. I wrote a chapter on the Southern Economy for the *Oxford Handbook of Southern Politics* that was published in 2012, and some of the biggest surprises come from recent research by economic historians Alan Olmsted and Paul Rhode: increases in cotton productivity were driven by innovation in cotton seed rather than by any technical efficiencies unique to gang-system slave agriculture. We still haven't solved the puzzle of relatively slow Southern convergence to national average income levels after the Civil War: why didn't we see a convergence pattern resembling what we saw in Germany and Japan (and the South, for that matter) after World War II? I don't think we have a clear set of answers yet. But I'm working on it.

LMR: Stepping back, would you say your research has benefited from your grounding in Austrian economics? Have you also drawn on insights from other schools, such as Public Choice?

AC: In graduate school, I worked closely with 1993 Nobel Laureate Douglass C. North, who described Friedrich Hayek as the most important economist of the 20th century. The emphasis on broad social processes and institutions has helped me see beyond the scope of equilibrium as such, and in recent work on the history of general merchandise retail I've seen how the insights of Lachmann, Kirzner, and other Austrians help us explain social change. In grad school, I was taken by Mises's insights on the degree to which the currently-existing capital structure constrains future change. Building then on re-

"The most under-reported story in the world (at least relative to its importance) is the mass movement of people out of extreme poverty in countries like China and India as they have liberalized."

search by Emily Chamlee-Wright, I extended Mises' insights to explore the "conservative" nature of southern social capital and institutions after the Civil War. With perfectly-specified property rights and no transaction costs, we would have seen a simple transfer of wealth in human labor from former slave owners to former slaves without any long-run efficiency loss. Since the new property rights regime was contested, however, convergence was slower than it otherwise would have been.

A lot of the work I'm doing now is influenced by the Austrians and by those who were in turn influenced by them: James Buchanan and Public Choice scholars, Elinor Ostrom, Douglass North and the New Institutional Economics, and others. I'm currently working on a book with Deirdre McCloskey that condenses and extends her three-volume series on what she calls "The Bourgeois Era," and we are drawing a lot of inspiration and insight from these different traditions—or from what Peter Boettke calls "mainline" economics in the tradition of Adam Smith through Friedrich Hayek and beyond.

LMR: What is your outlook for the future, both in terms of economic growth and the prospects for liberty?

AC: The glib economist's answer is "if I knew better than anyone else, I would act on my superior insight and get rich in the process." My portfolio suggests a lot of optimism: we're still very equity-heavy. Intellectually, McCloskey and I are extremely optimistic. Things might not be as good as they otherwise could be, but our kids will live longer, richer, more meaningful lives than we do. The most under-reported story in the world (at least relative to its importance) is the mass movement of people out of extreme poverty in countries like China and India as they have liberalized. I've said before that liberty is a delicate flower, and it has bloomed only in a relatively recent part of the human experience. On net, I think we are building a freer and more prosperous world. I'm especially excited about the possibilities for a world in which more and more people with more and more ideas and abilities are able to join the global conversation by getting connected to the internet.

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Events and Engagements

2015

JANUARY 24, 2015 • NASHVILLE TN

Murphy, Lara, and Nelson Nash present a workshop on Privatized Banking for CCC Corporation

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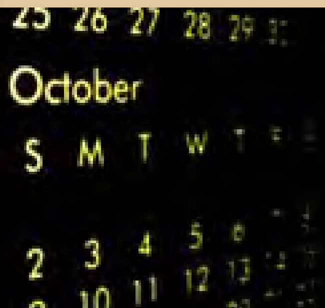
FEBRUARY 5-6, 2015 • BIRMINGHAM, AL

Murphy, Lara, Nash, and David Stearns present at the IBC Think Tank
(Inquire for details of workshop for the general public)



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