VOL. XIV No. 11

ECONOMIC EDUCATION BULLETIN

November 1974

Published by

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

Great Barrington, Massachusetts 01230

THE THREE GREATEST SWINDLES IN THE HISTORY OF MANKIND

by

E. C. Harwood

The word "swindle" is the usual name for obtaining money or property by fraud or deceit. The key elements of a swindle are that money or property has been taken from someone, with or without his explicit consent; and that the person has been deceived or somehow led to believe that his money or property either remains safely in his possession or in the future would be available to him.

The Inflating Swindle

Unquestionably the greatest swindle in the history of mankind is the inflating process under way in the United States. Inflating is the name applied to excess issues of currency and checking accounts, the excess being whatever such purchasing media are created beyond the amount required to represent the flow to the Nation's markets of things produced at pre-inflating prices.

Of course, a principal noticeable consequence of inflating is a general rise in prices, which reflects the bidding for things offered in the markets. In other words, the buying power of the dollar depreciates. There are other consequences including temporary prosperity for businesses, misdirection of economic resources to satisfy temporarily distorted demand, etc. If long continued, as inflating in the United States has been from World War II to date, the distortions can become great, with an accompanying encouragement of borrowing and speculation that may, and almost surely has, reached dangerous proportions.

The swindling effected by inflating is reflected primarily in the loss of buying power by all who have placed their faith in assets denominated in the Nation's currency. Such assets are: private and public pension reserves; deposits in savings banks and savings and loan institutions; savings in credit unions; U.S. Savings bonds and all other bonds held by individuals, State, municipal, and corporate; mortgages held by individuals, and the cash values of life insurance policies. Of course, the face values of life insurance policies also lose buying power, but those are losses to be realized in the future rather than losses that already have occurred.

In the classifications described above estimated losses to the end of 1974 exceed 1.1 *trillion* dollars. Never have the people of any country been victimized to this extent before. The fact that more than 1.5 trillion dollars remains to be embezzled must be small comfort to those who have suffered the great loss, however encouraging it may be to the swindlers who are continuing the process.

The Social Security Swindle

We realize that in designating Social Security as the second greatest swindle in the history of mankind, we may not be expressing a popular view. Who is going to like anyone who seems to be shooting at Santa Claus? However, instead of urging that Social Security be terminated, we urge that its express and implied promises to all who have participated must be kept; but as now constituted Social Security is a swindle in that people are being induced to part with their money by promises that clearly *cannot* be kept.

Originally, most early contributors to the Social Security old-age pension scheme no doubt thought that the Government was operating an actuarially sound pension plan from which they could count on receiving their annuities in due course. Actually, such never has been the nature of the Social Security old-age pension scheme. In fact, if private interests endeavored to operate a similar plan, its promoters probably would all be in jail for fraud.

Most people perhaps now understand that the Social Security old-age pension plan does not pretend to be actuarially sound. Payment of future benefits depends on the willingness of future workers to bear the tax burden. However, the public has been reassured by Government officials that this is a safe way to operate, that if Social Security taxes become higher than workers are willing to pay, the Treasury's general funds can be relied upon to make good any difference.

The deceptiveness of such assurances is revealed by the following facts:

1. The latest population figures indicate that the birth rate has been declining since 1960. Now it has fallen below the rate required to maintain the present population.

2. The decline in the birth rate apparently reflects availability of new contraceptives and abortions accompanied by the desire of many families for fewer children.

3. Always in the past, even before the recent availability of new contraceptives and legal abortions, the birth rate has decreased markedly during major recessions or depressions.

4. Higher Social Security taxes have the same adverse effects on family incomes as does a depression with part-time earnings and increased unemployment, except that the higher Social Security taxes hit every employed person whereas a depression benefits those whose incomes are not reduced.

5. Long-continued inflating has forced up prices of necessities (food, clothing, and shelter) much more rapidly than prices of consumer goods generally, about twice as rapidly for necessities. This puts extreme pressure on the majority of workers whose wages have not risen to keep up with the Government's cost-of-living figures.

6. Many of those born during the great post-World War II "baby boom" have reached working age, but even their great numbers in relation to persons retired have not prevented increases in Social Security taxes to roughly 12 percent of payrolls.

7. In the years ahead such taxes must increase greatly as first those born in the 1920's baby boom and then those born in the post-World War II baby boom reach retirement age. If present trends continue, Social Security taxes will require 60 percent of payrolls (including the employers' share, which necessarily is paid by employees in the form of higher prices) within a half century.

8. If the number of new births per family decreases further, as it seems almost certain to do under the pressure of higher and higher taxes, which force down standards of living, another decade or so beyond the next half century would bring Social Security taxes nearly equal to then current payrolls. Obviously, the situation would become impossible long before this circumstance exists. Those who work must retain enough of their pay to buy the necessities of life.

It should be noted that the foregoing are not the wild imaginings of some ideological opponent of Social Security. They are the sobering results of actuarial calculations plus a recognition of trends already evident.

Parenthetically, all the publicized concern about overpopulation, at least in Western civilization, is beginning to appear more than a little silly. What should be worried about is not the population explosion but the population *implosion.* Race suicide may have begun on a disturbing scale.

In any event, that the assurances that all is well with Social Security are deceitful is all too apparent. Official estimates indicate that a fund totaling about $2.3 trillion should have been accumulated to make the system actuarially sound. For all practical purposes, this amount may be regarded as a mortgage, in addition to the nearly $2 trillion of recognized debt, that will burden everyone in the United States for a long time to come.

Clearly, the "selling" of the Social Security System of old-age pensions to the people of the United States and the assurances that all is well constitute the second greatest swindle in the history of mankind. As time goes on it may take first place away from the inflating swindle, which is leading the procession for the time being.

The S.E.C. Swindle

The third greatest swindle in the history of mankind has not as yet reached anywhere near the proportions of the two described above. Neverthless, at perhaps $100 billion now with more to come, it is worth mentioning. The following extract from the *Investment Bulletin* published by American Institute Counselors, Incorporated, August 5, 1974 provides the facts now known.

One of the interesting and possibly significant differences between investment experience in the last half of the 1920's and that in recent years has been the timing and magnitude of new issues of common stock. In the 1920's, a total of $7.7 billion worth of new stocks were issued in the years from 1925 to 1929 inclusive. Not surprisingly, the amounts issued in each year thereafter decreased greatly to relatively negligible totals (only $0.1 billion in 1932).

Just as the great rise of the 1920's in stock prices ended late in 1929, the post World War II rise ended in January 1966. However, the tremendous bulge in new issues has come *after* rather than *before* the peak in recent years. In the 5 years 1969 to 1973 inclusive, new corporate issues of common stock sold in the over-the-counter market alone totaled approximately $42 billion.

Of course, investor confidence was not so severely undermined in 1966 as it had been following the panic of 1929. This may account for the willingness of investors to buy such huge totals of common stock after the approximate peak of the market had been reached. Presumably effective in sustaining investor confidence in new issues was the fact that all (with minor exception) had to be registered with the Securities and Exchange Commission.

The Securities Act of 1933 and subsequent amendments thereto were intended to prevent a repetition of the 1929-1932 experience for investors when many of the securities sold earlier proved to be worthless or nearly so. New issues are required to be registered, and much detailed information must be provided not only to the Commission but also to anyone to whom the security is offered. Moreover, no offers may be made until the registration becomes effective, that is, has not been rejected or registration postponed by the Commission.

Sellers of new issues are *not* permitted to represent that the Securities and Exchange Commission has approved or recommended any security. Nevertheless, anyone familiar with what actually occurs in brokers' offices throughout the Nation has seen ample evidence that the general public assumes that the S.E.C. somehow is safeguarding the investors' interests.

Any experienced observer of the securities markets also has observed how, in most instances during recent years, new issues were rapidly bid up to levels above the offering price, usually to at least double and in may instances to several times the offering price within a few months. This is the classical procedure for "pulling in the suckers." One result is that the initial offering brokers "make a killing" and most of the buyers among the general public pay far more than the original offering price for the stock.

Was the Public "Protected"?

Whether or not the public was protected is a fact that will not be known finally and in detail for a few more years. Nevertheless, some striking figures already are available as a result of a study we have initiated.

Approximately 8,000 new corporate stocks, S.E.C. registered of course, were issued in the last 5 years and sold over the counter. As the initial step in our study we selected what is believed to be a representative sample and find that:

a. By the end of 1972, nearly half of the stocks sold to the public since 1967 had declined 87 percent from the peak prices reached earlier.

b. By mid-1974, current quotations could be found over a two-week period for less than 10 percent, even dealer bid prices were available for only a few more, and for by far the most no record of any market was available. In other words, for most of them an investor would have a difficult time finding a buyer at any price.

c. If the sample thus far tested is representative, and we believe that it is, investors have lost in only a few years much of the $42 billion placed in new stock issues sold over the counter since 1968. In fact, they may have lost more because relatively few bought at the offering price on which the $42 billion figure is based; most probably paid more than the original offering price, perhaps two to five times as much. Moreover, the total of corporate securities registered by the S.E.C. in 1969 to 1973 inclusive was nearly $150 billion, of which a major portion may already be lost.

The facts raise serious questions:

1. Has the S.E.C., unwittingly of course, served as a Swindlers' Encouragement Commission?

2. Did the S.E.C., unintentionally of course, serve as a Suckers' Entrapment Commission, by ignoring the rampant manipulation of prices for new issues in the over-the-counter market, thereby inducing confidence where there should be skepticism?

3. Is the whole idea of an S.E.C. a basically mistaken one in that it seeks to substitute voluminous representations of facts, accounting records, etc. for what we believe is the investor's only practicable protection, finding wise and honest men who will safeguard his investment to the best of their ability? That the S.E.C. (and the "baby" S.E.C.s in many States) has been a wonderful thing for the legal profession, for accountants, and for printers of prospectuses seems indisputable, but that the funds of the average investor thus have been safeguarded seems open to question.

Conclusions

Perhaps the principal influence accounting for the simultaneous flourishing of the three greatest swindles is the prolonged inflating since the 1930's. Andrew Dickson White pointed out many years ago that in times of inflating, many if not most persons lose all sense of integrity, that fraud, swindles, and chicanery of all sorts grow like "fungus on a muck heap." What an incredibly rich muck heap the great inflating has provided, nourishing enough to foster forces that can destroy civilized society.

PUBLICATIONS OF AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

	Abbrev.	*Price*
HOW TO AVOID FINANCIAL TANGLES		
Section A: Elementary Property Problems and Important Financial Relationships	HF	
(Including Wills, Trusts, and Insurance) *by Kenneth C. Masteller*	A	$1.00
Section B: Taxes, Gifts, and Help for the Widow *by Kenneth C. Masteller*	B	1.00
Section C: Harvest Years Financial Plan *by E. C. Harwood*	C	1.00
LIFE INSURANCE FROM THE BUYER'S POINT OF VIEW		
by the Editorial Staff, edited by Richard F. Maloney	IB	1.00
ANNUITIES FROM THE BUYERS POINT OF VIEW *by the Editorial Staff*	AN	1.00
WHAT WOULD MORE INFLATING MEAN TO YOU? *by the Editorial Staff*	MI	2.00
HOW TO INVEST WISELY *by C. Russell Doane*	IW	1.00
INVESTMENT TRUSTS AND FUNDS FROM THE INVESTOR'S POINT OF VIEW		
by C. Russell Doane and Charles W. Hurll, Jr.	IF	2.00
THE RUBBER BUDGET ACCOUNT BOOK	AC	0.25
THE LOST ART OF COMMERCIAL BANKING *by E. C. Harwood*	LA	1.00
USEFUL ECONOMICS *by E. C. Harwood*	UE	1.00
CAN OUR REPUBLIC SURVIVE? Twentieth Century Common Sense and the American Crisis		
by the Editorial Staff, compiled and edited by James T. Gibbs	TC	1.00
WHY GOLD? *by the Editorial Staff, edited by James T. Gibbs*	G	1.00
RECONSTRUCTION OF ECONOMICS *by E. C. Harwood*	RE	2.00
CAUSE AND CONTROL OF THE BUSINESS CYCLE *by E. C. Harwood*	CC	3.00
UNDERSTANDING THE "MONEY MUDDLE" And How It May Affect your Family's Future		
by the Editorial Staff, under the direction of C. Russell Doane	MM	1.00

RESEARCH REPORTS, weekly analyses of economic developments, emphasizing their probable effects on future conditions. $9 per quarter, $35 per year.

ANNUAL SUSTAINING MEMBERS who contribute $9 a quarter or $35 a year to our research programs will receive all publications currently printed and all revised or new publications when issued. If at any time you feel that our research does not warrant your further support, you may request a pro rata refund of your contribution based on the time elapsed. All contributions are deductible from your income before taxes. Presumably, the publications will be used by you for business or investment guidance; therefore, the list price of them is deductible as a business or investment expense. Contributions in excess of this amount are properly deductible as donations to an educational and scientific organization.

At your request, the Institute will forward your payment for a subscription to the *Investment Bulletin*, published by American Institute Counselors, Incorporated. The bulletin is issued twice monthly at a price of $15 per year. It was formerly published by American Institute for Economic Research, but the Institute has divested itself of its direct investment and related advisory services in order to preserve its character as a scientific and educational institution. Those services are now rendered by American Institute Counselors, Incorporated, an independent organization, whose net income is devoted to the support of the purposes and objectives of American Institute for Economic Research. (Of course, the $15 paid for this service is deductible from income before taxes as an investment expense.)

REPRINTS AVAILABLE: 10 COPIES FOR $1

Economic Education Bulletin is published once a month at Great Barrington, Massachusetts, by American Institute for Economic Research, a scientific and educational organization with no stockholders, chartered under Chapter 180 of the General Laws of Massachusetts. Second class postage paid at Great Barrington, Massachusetts. Printed in the United States of America.