Becoming Your Own BANKER

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The Perfect Investment

by L. Carlos Lara

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There is no other way to put it. Americans have been tricked! The hidden process of money creation that artificially manipulates interest rates and creates economic booms has misguided society's views of money and credit. This has been especially noticeable in our modern view of savings. Once considered the bedrock of a household's financial strategy, traditional savings plans lost favor with the public because they were seen as too slow and boring in an economy that was flush with money and low interest rates. The lure of the stock market and the promises of quick money through investing turned Americans into a nation of speculators. Riding the wave of inflation, the idea was to buy low and sell high. The strategy was all about making money—fast!

The problem is that inflation and credit expansion always precipitates business maladjustments and malinvestments that must be later liquidated. The inevitable bust is always disastrous to the economy. For society at large, the end results are massive unemployment, recessions, and a possible collapse of the monetary system. Only now, with the current financial crises are individuals finally starting to assess how this all happens. What has surfaced as the primary cause no one would have believed during the heyday of easy credit and fast money. But slowly, over the course of recent years, the general public has finally become aware that somehow the Federal Reserve was directly responsible. And, of course, they are right. After all, the Fed controls all of our money! The Federal Reserve, though created by the government, is nonetheless owned by private individuals and in important ways operates independently from the wishes of the government. As Austrian economist, Murray Rothbard, stated:

"The Federal Reserve, virtually in total control of the nation's monetary system, is accountable to nobody—and this strange situation, if acknowledged at all, is invariably trumpeted as a virtue."[1]

This startling realization, the fact that our money is not fully in our control can be immensely depressing once all of its moral and economic ramifications are fully understood. How in the world do you take away the printing press from government and the Federal Reserve once they have had full use of it all these many years? In fact, just exactly how would one go about changing such a monstrous problem?

How Privatized Banking Really Works

To answer these specific questions Robert and I wrote How Privatized Banking Really Works. It is a unique book in that it both diagnoses our nation's economic problems, but then offers a realistic solution. Our quandary has very specific causes: fiat money and the practice of fractional reserve banking, coupled with government interventions that perpetuate them. All this we explained without the use of intimidating jargon that too often defies comprehension. The book's overarching theme is that households do have the ability to secede from this chaotic financial system and ultimately force the upper echelons of government to make necessary monetary policy changes. In that respect, this is a book that answers the question of what one person can actually do that will make a difference in an economic environment that has gone terribly awry.

What we made clear was that the solution requires a movement that will ultimately change public opinion. However, the very first step to getting the ball rolling requires the implementation of the Infinite Banking Concept (IBC). To do this successfully one must fully grasp its meaning and see how it actually helps the individual financially. Once fully understood, this concept provides the basis for a formula with powerful turn-around dynamics. The result is a private economic enterprise that provides all of the financing capabilities to acquire cars, children's education, retirement income and even house purchases. In an economic environment such as what we have today who would not want to know about such a concept? However, making the case for IBC is easier said than done. Today's investing public is extremely cynical and skeptical, but there is yet another issue that can sometimes prove insurmountable— the closed mind. Many people have difficulty seeing past their preconceived ideas. Nevertheless, if we are to have any hopes of returning to sound money and returning money and banking to the competitive private sector, out of the hands of politicians and bailed-out big bankers, the public must be made to understand this very important piece of the financial solution. Here is where the financial professional who understands Austrian economics must step forward to do his part in properly explaining IBC.

One of the most compelling ways financial professionals explain the IBC concept is to compare it to one's own private bank as Nelson Nash has done in his national best selling book, Become Your Own Banker. This is important because IBC is all about the banking business. But another way that is often used to explain IBC is to compare it to the perfect investment. Here the client is asked to list all of the attributes of the ideal investment. This exercise alone will do an incredible job of opening up the mind to the infinite possibilities if such a product existed. Although the lists may vary from client to client, the following qualities are the ones most often cited:

1. A consistent high rate of return
2. Liquidity
3. Guaranteed
4. Safe
5. Tax Free
6. No market volatility
7. Creditor Protected
8. Inflation Proof
9. Control
10. Transferable
11. Easy to manage
12. No fees or penalties
13. Reputable
14. Private

Try this exercise yourself and you will see that these are probably the top qualities you would select. In fact, a product that would contain all of these features would be too good to be true. But, when it is confirmed that all of these features are found in Whole Life, the client is stunned. It can't be! Yet it's true. If you can think of other qualities not listed here, the chances are pretty high that whole life has them. Furthermore, this is not an even an investment, it's life insurance!

Just imagine having an infrastructure with all these qualities and having full control of the asset. This is the power of IBC. The most popular investment vehicles are strong on some criteria but very weak on others. For example, gold is an excellent inflation hedge, but it does not provide a flow of income, its appreciation can be taxed as a capital gain, and the government has confiscated gold in the past. Real estate too can be quite volatile. Stock market investments, though promising a high rate of return, also come with the risk of massive short-term losses.

The standard case for whole life insurance is that it is remarkably reliable on several of the above criteria. Even its weak points are not as bad as the critics think. In reality there is no such thing as a perfect investment, but the case for middle-to upper-income families including whole life, as part of their conservative financial plan, is quite compelling. When we supplement the standard case with Nelson's Nash's insights, and in particular the relationship of insurance and fractional reserve banking (as I will explain later in this article), the case for practicing IBC becomes stronger still.

In our experience, most people reject IBC out of hand because they have one or two "devastating" objections to the use of a whole life policy. The following example may help in defusing these common objections.

Making Money

Richard Russell has published the Dow Theory Letters since 1958. He gained wide recognition as a stock market analyst and writer for Barron's from the late 50s through the 90s. He has also written for Time, Newsweek, Money Magazine, the New York Times and the Wall Street Journal. Recently he republished an article that he declares has been his most popular piece in 40 years of writing. It was titled Rich Man, Poor Man. In this article, Russell unveils the secret to making money.

Before telling us the secret, Russell makes an astute analysis that is worth repeating. He says that making money involves much more than predicting what the stock and bond markets will do or what fund will double over the next few years.

"For the majority of investors, making money requires a plan, self discipline and desire. I say 'for the majority of people' because if you are Stephen Spielberg or Bill Gates you don't have to know about the Dow or the markets or about yields or price/earnings ratios. You're a phenomenon in your own field, and you are going to make big money as a by-product of your talent and ability. But this kind of genius is rare."[2]

Since we are not all geniuses, the rest of us need to rely on what Russell calls the "royal road to riches" which he defines as the power of compounding. To compound successfully you need time because compounding only works through time. But he says that the compounding process has two catches. The first is that it requires sacrifice, as Russell puts it, "you can't spend it and still save it." Second, compounding is b-o-r-i-n-g. But Russell makes it a point to assure us that it is slow and boring only for the first seven or eight years and then it becomes downright fascinating! The money starts to pour in.

To emphasize the power of compounding Russell shows an extraordinary study of two investors. Investor (B) opens an IRA account at age 19. For seven consecutive periods he puts in $2,000 in his IRA at an average of 10% return (7% interest plus growth). After seven years this individual makes NO FURTHER CONTRIBUTIONS—he's finished.

Investor (A) opens up an IRA at age 26 (this is the age when Investor (B) was finished with his contributions). Then A continues faithfully to contribute $2,000 every year until he is 65 (at the same theoretical 10% rate).

Now study the incredible results. Investor A has 893,704. Investor B has 930,641.

Investor B, who has made his contributions earlier and who only made seven contributions in total, ends up with MORE money than Investor A! But Investor A, who made a total of 40 contributions, only LATER in time, winds up with less money. How can that be? The difference in the two, Russell tells us, is that B had several more early years of compounding than A, and those seven early years were worth more than all of A's 33 additional contributions.

Amazing! This is indeed the power of compounding. Richard Russell has certainly gotten our attention and made us realize how important it is to save money and to start as soon as possible. However, a closer examination of this example brings out several problems that are worth noting.

First of all, we should keep in mind that Richard Russell wrote this article years ago and his use of a 10% return would certainly be considered an above average rate of return today. But there is also the unmistakable consistency in the growth of this fund, a fact that would never happen in the real world. Russell even admonishes his readers that one of the cardinal rules to compounding success is to NEVER

LOSE MONEY and most financial products do lose money. Even diversified mutual funds took a brutal beating in the 2000s. Depending on the composition of their funds, many households were lucky if they broke even during the entire decade. It is all well and good to tell someone, "Buy and hold," but many breadwinners with 401(k)s and other comparable plans had to delay their retirement after the bloodbath in 2008. As of this writing and because Bernanke has halted QE, we are presently in store for another stock market crash.

Second, there is the factor of inflation that is not calculated into this equation. Inflation, although not visible, is real. Whether you use 3%, 5% or whatever factor you choose for inflation, the accumulated numbers will certainly change once its applied. But what is really missing is TAX. Russell has this money inside of an IRA. This means that the tax due on this pile of money is calculated at income tax rates, which can be as high as 35%! If you do the math the pile of money gets drastically small. The fascinating results we first observed with investor's A&B suddenly diminish.

It is worth the time to stand back and look at this example from both the positive and negative sides of this equation if for no other reason than to realize just how difficult it is for Americans to pile up money over a long period of time and get to keep any of it at the end. The volatility of the bond and stock market, which keeps us from earning a consistent rate of return, is prompted by outside forces, which we know to be artificial bubbles in the economy, caused by monetary policy. The indirect and hidden tax of inflation and the direct tax we have to pay on the accumulation all serve to reminds us of the iron grip government has on our money.

Then there is the problem of control. Do we actually have control over the money we try and save? Individual Retirement Accounts (IRA), the 401(k), the 403(b), and other tax-qualified government sponsored plans for the most part have their underlying assets invested in the stock market through mutual funds. As we have already mentioned, this is not exactly a safe place for our life's savings. Furthermore, these allocated funds are virtually untouchable till age 59½ unless one is willing to incur a 10% penalty, plus pay the federal income tax, which has only been deferred. After age 70 you must pay the tax. But more importantly, without the ability to tap into your pool of savings in case of emergencies or for large-scale purchases, Americans have very little recourse but to suffer great hardship or be forced to borrow and go into debt.

Astonishingly, the power of compounding that Richard Russell describes in his example can still be achieved if your money is stored inside a whole life policy. The rates of return in a whole life policy are guaranteed never to go below the rates quoted at the time a policy is underwritten. Consequently, a floor is immediately established that assures you of the consistency required to make compounding successful. If interest rates go up then the cash values in your policy will also appreciate.

In case the insured becomes disabled the "Waiver of Premium" rider (not available to those over age 55) guarantees the payment of all premiums at no out of pocket cost to the insured. Just another way the compounding process can be protected.

If the dividends, which are paid annually, are reinvested back into the purchase of additional life insurance, two important things happen. First, the increasing death benefit becomes the hedge against inflation. Second, the accumulating cash values are not subject to tax. Later on, if the policyholder elects to withdraw the dividend payments as income, these too are tax-free up to the point the dollars taken out are above the ones initially put in.

In case of untimely death the entire compounding process self completes immediately by the death benefit and the proceeds are passed on to the beneficiaries income tax-free.

By having one's money inside a "private" contractual arrangement with an Insurance company instead of a tax qualified government plan such as an IRA, 401(K), or other similar vehicles, there is real control over your money without the typical restrictions and penalties. You have access to the cash values inside your policy whenever you need them through policy loans. Additionally, all of the other desired investment qualities already mentioned are present. Most importantly, you can spend it and still save it, so long as you replace it. If done properly, using a whole life policy as a financing enterprise makes complete sense.

Whole Life Policy Loans Are Not Inflationary

Nelson Nash has discovered that a traditional financial product—dividend-paying whole life insurance—can be used to immediately implement a form of privatized banking, one household at a time. But equally important, when major purchases are financed through whole life policy loans, the money supply is not expanded and there is no contribution to the boom-bust cycle.

Unlike a commercial bank, the insurance company can't simply increase the numbers on its ledger, showing how much money the customer has "on deposit." No, the insurance company itself must first raise the funds (from incoming premium payments, income earned on its assets, or through selling some of its assets) before transferring them to the policyholder as a loan. Percy Greaves, in his introduction to a book by Ludwig von Mises, drives home the central point.

"The cash surrender values of life insurance policies are not funds that depositors and policyholders can obtain and spend without reducing the cash of others. These funds are in large part invested and thus not held in a monetary form. That part which is in banks or in cash is, of course, included in the quantity of money which is either in or out of banks and should not be counted a second time. Under present laws, such institutions cannot extend credit beyond sums received. If they need to raise more cash than they have on hand to meet customer withdrawals, they must sell some of their investments and reduce the bank accounts or cash holdings of those who buy them. Accordingly, they (the insurance companies) are in no position to expand credit or increase the nation's quantity of money as can commercial and central banks, all of which operate on a fractional reserve basis and can lend more money than is entrusted to them."[3]

So we see that not only does IBC make sense on an individual level, but it also limits the ability of commercial banks to expand and contract the total amount of money in the economy. With each new household that embraces the IBC philosophy, another portion of the nation's financial resources will be transferred out of the volatile commercial banking sector and into the conservative, solid insurance sector. As more people embrace IBC, the amplitude of the boom-bust cycle itself will be dampened. The social benefits of muting inflationary credit expansion are achieved.

Conclusion

Unfortunately, there are powerful forces at work to disrupt our market economy. The student of history knows all too well that the rich and powerful turn to government for special privileges and handouts, and sabotage the peaceful operations of the market. This government interference leads to the financial crises that seem to inexplicably plague our country.

The beauty of Nelson Nash's *Infinite Banking Concept*—and the crux of this article—is that IBC is effective both individually and collectively. Financial professionals should devote their efforts to showing households that they can provide themselves with a much more secure future. By accumulating their savings in whole life policies to finance their major purchases, families and individuals can contribute to the soundness of the dollar and dampen the boom-bust cycle.

The proponents of IBC and the scholars in the Austrian tradition can learn from each other, and in doing so can make their messages more attractive to their respective audiences. Financial professionals trying to show others the benefits of IBC can add a new point in its favor: its widespread practice would preserve the currency and strengthen the economy! These efforts can build the 10%. The movement we seek can actually happen. Public opinion can change. Monetary policy can be re-written.

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WHEN WISHES BECOME RIGHTS

By Leonard E. Read

Federal deficits mount as the consequence of increasing claims against welfare programs of all kinds. This growth of government spending and intervention in 1983 leads me to review and repeat some ideas I offered on the subject in *The Freeman* of 1964

Reflect on the "backward" countries in the world; the "distressed areas" in the USA; the many individuals who are poverty stricken, lame, blind. Then add all the unfulfilled desires and yearnings of 235 million Americans, ranging from better food, housing, clothing, medicine, hospitals, mink coats, and automobiles to colonizing outer space. What a field for the would-be philanthropist if all these wants were within his power to fulfill!

Let us imagine that you have been offered a magic power to satisfy everyone's material wishes with no effort on your part. Suppose, for instance, that you had Aladdin's lamp and could call up a genie that would confer any good or service on anyone you might choose to help. If you could thus satisfy desires for material things with neither cost nor effort on the part of anyone, would you be willing to assume the role of Aladdin and bestow benefactions like manna from heaven?

Perhaps you are among the very few whose answer would be an emphatic "No!" There are those few who would immediately sense the consequences of such reckless "humanitarianism:" no more farming; the closing of all factories and stores; trains and planes coming to a stop; students no longer studying; a heaven-on-earth – a veritable Shangri-La! No more problems; all obstacles overcome for mankind! These few know that when there is no exercise and flexing of the faculties, atrophy follows as a matter of course and our species disappears – all because everyone is granted riches for nothing more than the wishing!

If this sort of magic were only half practiced, would the result be bad? "Yes!" answered Benjamin Franklin. "If man could have Half his Wishes, he would double his Troubles." We may infer from this that if a man's objectives could be achieved for nothing more than wishes, no good would be served, deterioration would ensue. Struggle, earning one's spurs, conscious effort , calling on one's potentialities and bringing them into use are essential to survival – to say nothing of progress. This is crystal clear to a few. But not to the many.

A majority of Americans, today, would accept the magic lamp. For it is obvious that most persons who would gratify a wish at the expense to others would readily do so at no expense to others. Such wishers are among us by the millions, all in pursuit of something for nothing – effortless wish gratification.

These many Americans have found their magic lamp in the Federal political apparatus, and what a genie! Aladdin's lamp evoked a genie of supernatural powers; but this modern genie is a composite of quite ordinary human beings and, as a consequence, it relies on the earthly ways of humans. Even so, we must never sell it short; it is unbelievably clever.

Aladdin's genie performed only on call; it responded to wishes when requested. This modern American version, on the other hand, displays zealous initiative in that it:

1. Invents wishes for people.

2. Persuades people that these wishes are their own and, then, actively solicits their gratification;

3. convinces people that these wishes are among their natural rights, and

4. casts itself in the role of "helper".

Mythology in its heyday never came up with a genie equal to this. Golden goals for people to adopt? It was this genie, not the people of the Tennessee Valley, that initiated the TVA with its below-cost pricing. It was this genie that conceived "social security," the Peace Corps, and so on.

Further, the genie insinuates its golden goals into the minds of people as wishes capable of fulfillment. The genie appears in nearly every community of the nation and in many countries of the world selling its wishing wares Federal urban renewal projects are promoted far more by the bureaucracy in Washington than by local citizens. Federal largesse is urged upon the citizenry. Of course, the reason is clear enough: urban renewal is an integral part of the numerous Federal "full employment" projects required as cover-ups of the unemployment caused by other Federal policies.

But it would hardly do for this genie to gratify wishes were the performance attended by any sense of guilt on the people's part. So, how does the genie dispose of this hazard? Simple! It transmutes wishes into "rights," and remains above suspicion in this legerdemain. Do you wish a restoration of your decaying downtown? Very well; that wish is a right. Do you wish lower rates for power and light? Presto! The wish is a right. Do you wish a better price for your tobacco, a better job, a better education that can be had by your own efforts in willing exchange? These wishes are now your rights.

Labor unions with their right-to-a-job concept and businessmen with their right-to-a-market idea (outlawing competition) are dealing in the same category of false rights. Indeed, this can be said for all of socialism – without exception!

When people say they have a right to a job or to lower power and light rates or to an education or to a decent standard of living, they are staking out a claim to the fruits of the labor of others. Where rests the sanction for this claim? It simply comes from the notion that a wish is a right.

The absurdity of this wish-is-a-right sanction comes clear if we reduce the problem to manageable proportions: a you-and-me situation. Do have a just or rational or moral or ethical claim to use your income to provide a "living wage" for me? Do I have a valid claim to use your erect my school and staff it with teachers, or finance my church and supply clergymen?

Most people victimized by the magic transmutation of wishes into rights will, in this you-and-me situation, answer the above question in the negative. What escapes them is that the problem is not altered one whit by adding one person or a hundred or a million of them. And, if it be contended that numbers do matter, then, pray tell, what is the magic number? A majority? Must we not infer from this majoritarian cliché' the indefensible proposition that might makes right?

In any community in the land may be found people pointing with pride to some "necessity" the local citizens could not or would not finance, explaining that it was made possible "with the help of the Federal government."

The modern American genie, lacking super-natural powers, cannot bring down manna from heaven. Being earthly, its manna is earthly in origin. Having nothing whatsoever of its own, its "gifts" must, perforce, stem from what is taken by coercion from others. It cannot be otherwise.

The questions posed are: Do these "gifts" qualify as help? Is this genie, in fact, a helper? Are the "beneficiaries" really helped? If we can answer these questions in the negative, we come out from under the genie's spell.

Help is a social term. At least two persons – the helper and the helped – are implicit in its meaning. There cannot be one without the other. The extent to which one is helped is measured precisely by the nature and amount of the helper's contribution. What is received by the one is what comes from the other.

Property taken without consent is correctly branded as ill-gotten property. Nothing is altered by the transfer.

According to moral law, as well as the law of the land, one who takes property without the owner's consent commits a crime. When such property is passed on to and accepted by another, the other is adjudged an accomplice to the crime.

Property taken without consent cannot be given, for to give is conditioned on and presupposes ownership by the giver. I cannot give that which is not mine. Thus, the genie's largesse cannot qualify as gifts but only as loot.

Loot is not help, one who loots is not a helper, and one who accepts the loot is not really helped.

Power to tamper with the volitional faculties of other is, in fact, a dangerous possession. Nor does it matter whether this power be used to restrain these faculties, as in private or political dictatorship, or exerted to relieve the need for the exercise of these faculties, as in private or political welfarism. However strong the compulsion in most of us to modify or improve the lot of other people, if we would avoid causing more harm than good, we must confine ourselves to those aids that stimulate the renewed exercise of the volitional faculties in others. This suggests a rejection of all power to impose, leaving instead a reliance upon ingathering or drawing power – that magnetic, attracting, emulating force, the power that derives from such self-perfection as one may achieve.

I must not, in picking to pieces the notion that wishes are rights, leave the impression that wishes, of and by themselves, are proper objects of scorn. On the contrary, wishes, hopes, aspirations are among the most important forces motivating human progress, evolution, emergence. At issue here is only the means of their gratification.

We who reject illusory schemes are not denying the good life to others but merely pointing out that political nostrums can lead only to desolatory dead ends. No good end can be reached by can be reached by choosing a wrong way.

As we uncover more and more wrong ways, the right way begins to take form. It is the greatest gratifier of human wishes ever come upon – when allowed to operate. It is a morally sound as the Golden Rule. It is the way of willing exchange, of common consent, of self-responsibility , of open opportunity. It respects the right of each to the product of his own labor. It limits the police force to keeping the peace. It is the way of the free market, private property, limited government. Our banner is emblazoned Individual Liberty.

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Investment or Malinvestment?

by Igor Karbinovskiy

Every administration wants to create jobs. There can never be too many jobs, if you ask them, so they're always interested in making more, even in times of low unemployment. Every administration, therefore, proposes its own jobs bill. Last year, for example, President Obama spent some time touring the country to promote his own jobs bill as a way to address the deepening economic crisis. This seems like a no-brainer. After all, jobs are clearly and unambiguously a good thing, right?

Suppose I write an article on the economy that no one wants to read, much less pay me for. Now suppose that the government pays me for it anyway — as part of a jobs bill. Presto! A new job has been created; a person who was previously unemployed is now working. Better yet, that person is me! This job certainly increased my standard of living. But what have I produced? What have I contributed to the economy? Because no one wants my article, the value of my contribution to the economy is zero. The time I've spent in writing, and the money the government paid me, have been wasted. Worse, because this money allows me to consume things that I (and other people) want

— things like food and shelter — the net effect on the economy is negative: zero value in, positive value out. This, then, is an example of a "bad" job.

On the other hand, if someone wanted the article I'd written, at the price I was charging for it, then the situation would be quite different. My contribution to the economy would be positive; its value is determined by my customers, who prefer my work to the money they paid for it. I obviously gain the money, which I value higher than my labor. In this latter example, I was productive. In the former, I was not. This, then, is the difference between a productive job and an unproductive one: whether or not someone freely decides that its output is worth buying.

Everyone makes decisions based on an ever-shifting scale of personal preferences — a kind of mental shopping list on which we list all options available to us that we're aware of, in order from most desirable to least desirable. Economists call this the "law of marginal utility." We choose that option we find most desirable — why would we ever pick an option that is less desirable than another (whatever "desirable" means to us)? I am not suggesting that every choice we make is made with our personal, selfish benefit in mind, at least not material benefit. I am simply pointing out that anything we do in the absence of coercion — even giving gifts — we do because we want to do it. So if we go into a store and choose one product over another, it is because we valued that product more than the other.

If we accept that some products are desirable and others aren't, then it follows logically that the real estate, equipment, labor, raw materials, and money involved in their creation are also either desirably employed or not. Anything invested in creation of goods that no one wants ("bads," really) is wasted — as was my time in writing the unwanted article — and should be reallocated toward creation of goods people actually want. On the other hand, assets invested in the creation of goods that everyone wants most urgently are clearly put to best possible use, and any effort to reallocate them toward any other use would result in a reduction in everyone's standard of living.

It's not enough, then, to know how much money, equipment, time, etc. there is; you also need to know how much the end result is valued on the free market. Investors know this from experience, after watching the values of their investments fluctuate on the market. And how can we know ahead of time how much the final product or service will be valued on the free market? We cannot. There is only one way to test the quality of any investment — by putting it to the free market test: produce the goods or services; offer those goods or services for sale on the free market; if you make a profit, then your investment was productive.

All this is in complete contradiction to the commonly (though not universally) accepted economic theory that treats all investments the same, without regard to how desirable its end product is. Everything is lumped together blindly into a single aggregate. According to this theory, if you increase the aggregate, you increase the total level of wealth and hence the standard of living. Not surprisingly, economists who think this way are always calling for more inflation.

But if you increase the supply of money (inflation), and it is allocated into uses that are wasteful, then you don't create any wealth, and you don't increase the standard of living — even if you use the new money to create new jobs. When mainstream economists say that the economy has expanded, therefore, this should be taken with a grain of salt. A skeptical person should ask which part of the economy has expanded — the productive part? Or waste?

In the same way economic contraction is not necessarily a bad thing. Which part of the economy has contracted? The productive part or waste? When investments are misallocated into wasteful configurations ("malinvestments"), the result is losses to its owners (barring government bailout). The owners, then, are faced with the pressure to reallocate their wealth if they don't want to continue to hemorrhage cash. This usually involves cutting back on spending, letting employees go, selling property, etc. In other words, economic contraction. At the end of this process, the money is released to be reallocated, potentially into productive, wealth-building uses. The sum total of the economy may have shrunk, but the productive part of it has grown at the expense of the wasted part.

There is no way to know if a particular sum of money, machine, building, or worker is put to a valuable, productive use, other than to put them to the test of the free market. Outside the free market, investing capital is like throwing darts blindfolded when you don't even know which direction the dartboard is. What does that mean for a jobs bill? Far from rescuing the economy from crisis, it would only make it worse. Consumers, being the rulers of the free marketplace, must be free to decide — to buy or not to buy. To maximize productive capital therefore requires that consumers are free from any constraints on their decision making — and especially that nothing should interfere with the profit-and-loss signals sent out by these decisions. The sooner capital owners learn that their capital is allocated into wasteful uses, the better.

Igor Karbinovskiy is a self-taught investor and economics student. He studied business management and computer science at SUNY Stony Brook. He works as an accountant at a real-estate holding company in New Jersey. Send him mail. See Igor Karbinovskiy's article archives.

Nelson's Favorite Quotes

II Timothy 4:1-4

Before God and Christ Jesus, who is going to judge the living and the dead, and by His appearing and His kingdom, I solemnly charge you: proclaim the message; persist in it whether convenient or not; rebuke, correct, and encourage with great patience and teaching. The time will come when they will not tolerate sound doctrine, but according to their desires, will accumulate teachers for themselves because they have an itch to hear something new. They will turn away from hearing the truth and will turn aside to myths.

Becoming Your Own BANKER

Number Twenty One in a monthly series of Nelson's lessons, right out of Becoming Your Own Banker®. We will continue until we have gone through the entire book.

Lesson 21: Creating The Entity (con't)

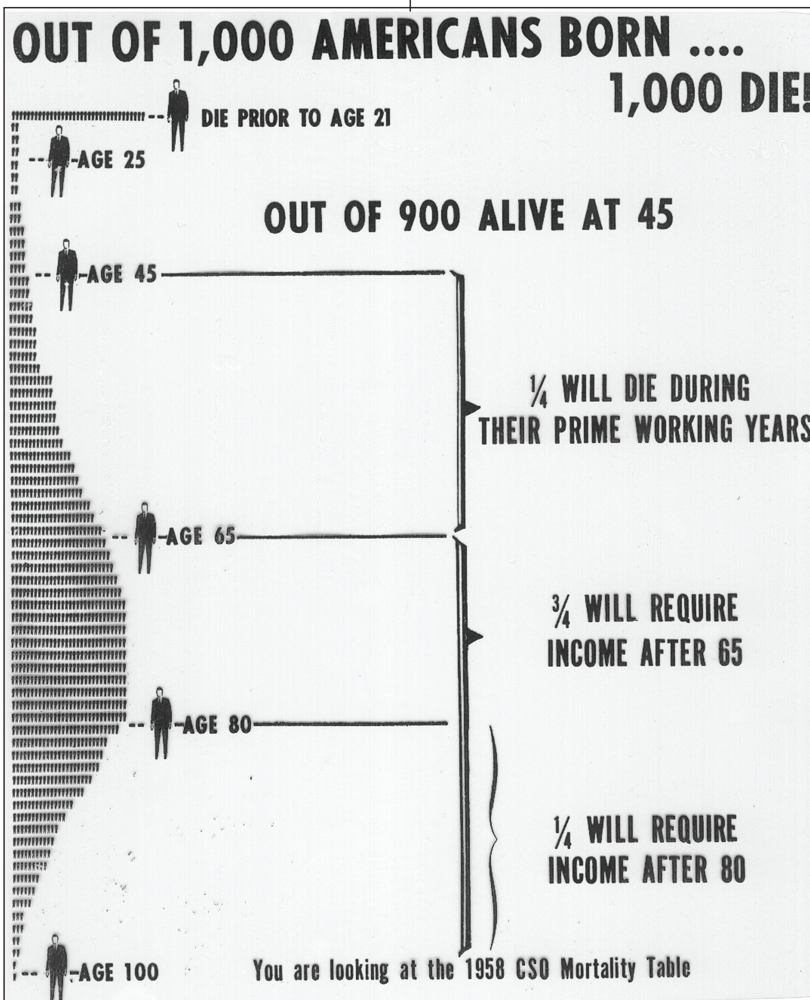
Content: Page 36, *Becoming Your Own Banker – The Infinite Banking Concept®* Fifth Edition, Fifth Printing.

As we discussed earlier, most all products begin with engineering. In the life insurance business the engineers are actuaries. They are dealing with a field of ten million selected lives – persons that have been through a selection process. I would not be one included in this field since I've been through heart by-pass surgery. And they are dealing with a theoretical life span of one hundred years.

The graphical illustration of the 1958 Commissioner's Standard Ordinary Mortality Table is illustrated here. A word of caution is necessary here – most people will react with a question like, "Why are you showing me a table from 1958 – that's ancient history!" You need to understand that it really doesn't matter all that much when you are dealing with a mutual life insurance company. All you need is a "starting point." If mortality experience has improved, then dividends will go up, giving you the effect of a current mortality table at all times.

Even in 1958 you will notice that, out of 1,000 born, only 100 had died before age 45. I went to my 50th high school reunion four years ago and our experience was much better than that. Out of a class of 230, only 16 had died and two of them were in a car wreck when we were still in school. Life expectancy has improved dramatically in the past 60 years.

This should be a good place to ask a question – where did this idea of retiring at age 65 come from? From all that I can gather it all started with the Germans during the time of Bismarck. These were the folks that gave the world the idea of Social Security. This is where President Franklin D. Roosevelt got age 65 for retirement purposes. I believe that life expectancy for American males in 1937 was in the neighborhood of age 61. Now, expectancy for males is past age 75. And we are currently using age 67 as retirement time!? It will never work! With increasing longevity, can you picture a situation where one plans to work for 40 years and retires for 45 years? Get real! There is no way that this can happen!



The coming collapse of Social Security is the natural result of operating from a faulty premise. There is no legitimate reason for using such fallacious thinking to plan your financial future. I once read a story about John Templeton, creator of The Templeton Fund, who "retired" at age 80 and is now doing only charitable work (and working harder than ever). He made the observation that all should plan on working to at least 70 before considering retirement – that under our current thinking the most productive years of life are being wasted.

Furthermore, it is easily demonstrable that all Socialist schemes eventually fall apart. There has ever been an exception. Just a thought to consider – the Soviet Union lasted about 70 years and it became unraveled. The great Austrian economist, Ludwig von Mises, explained over 50 years ago that this would happen. And now, remember that the U.S. Social Security program started in 1937. Add about 70 years to that date and watch that thing come apart!

There is no money in the Social Security "Trust Fund." That money has already been spent and replaced with worthless IOU's. Everything is predicated on the government's ability to extract money from future generations. According to an article in the May 1997 issue of Nation's Business, in 1945, there were 42 workers supporting each recipient of Social Security. In 1996, only 3.3 workers were supporting each recipient. By the year 2025 the ratio is predicted to be 2.2 workers per recipient.

Here is a scenario that I conceived a few years ago that no one will talk about: There are three men, all born on the same day – one was Caucasian, one was Black, and one was Hispanic. During their working lives they all had similar jobs and paid maximum into Social Security. They all lived until Social Security retirement age. It is a statistical fact that Caucasians live longer than Blacks and Hispanics. You can pass all the laws that you want to and you can't change that fact.

They all drew their first monthly check. The next month the Black man died and the following month his widow died from heart break of losing her husband. The following month the Hispanic man died and the month after that his widow died, too.

Question: What happened to all the money the Black and the Hispanic paid into Social Security?

Answer: In the first place, it doesn't exist. The money has already been spent. But the net effect of the program is that it extends the system longer into the future for the benefit of the Caucasian's widow!! You see, the Caucasian women live longer than their husbands!

In addition to all the other warnings about the coming implosion of that abominable Social Security idea, please tell me how anyone can expect my last example to exist in 21st Century America! There is no way that it can happen!! You can take steps to avoid all this by contracting with other like minded people to solve the problem. It is called Whole Life Insurance!

Nelson's Newly Added Book Recommendations
http://infinitebanking.org/reading-list/

Gents with No Cents by Ron DeLegge

All the Trouble in the World by P. J. O'Rourke

The Income Tax: Root of all Evil by Frank Chodorov

Nelson's Live Seminars for February and March 2012
http://infinitebanking.org/seminars/

Our comprehensive *Becoming Your Own Banker®* seminar is organized into a five-part, ten-hour consumer-oriented study of *The Infinite Banking Concept®* and uses our book *Becoming Your Own Banker®* as the guide. Nelson covers the concept's fundamentals in a two-hour introductory block the first day. He then covers the "how to" over an eight-hour block the final day. These seminars are sponsored by IBC Think Tank Members, therefore attendance is dictated by the seminar sponsor. If you are interested in attending one of these events, please call or email the contact person listed with the seminar.

Nelson Live in Birmingham, AL, Tuesday-Wednesday, 7-8 February, contact David Stearns at 205-276-2977, david@infinitebanking.org

IBC Think Tank Symposium, Thursday-Friday, 9-10 February, contact David Stearns at 205-276-2977, david@infinitebanking.org

Nelson Speaking in Houston, TX, Wednesday, 22 February, in *Cleburne, TX,* Thursday, 23 February, in *Arlington, TX*, Friday, 24 February, contact James Neathery 817-790-0405, jcneat@gmail.com

Nelson Live in Ft Worth, TX, Friday, 25 February, contact James Neathery 817-790-0405, jcneat@gmail.com

Nelson Live in Lancaster County, PA, Friday-Saturday, 2-3 March, contact Jo Scheidt 717-626-4072, jo@familywealthandwisdom.com

Nelson Live in Houston, TX, Friday-Saturday, 23-24 March, contact Peoples Choice Insurance Solutions & Investments, Inc., 281-852-9396, peoples.choice@comcast.net

Nelson Live in Baldwin City, KS, Thursday, 29 March, contact Mike Everett 785-760-3189 or 800-953-9926, michaelkeverett@gmail.com