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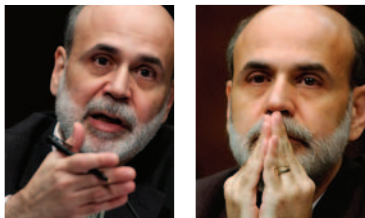
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ABOUT LARA & MURPHY

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).

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"It is the masses that determine the course of history, but its initial movement must start with the individual."
 - *How Privatized Banking Really Works*



LARA-MURPHY REPORT

December 2011

Dear Readers,

As this year comes to a close we can think of nothing more appropriate to pen this last day of 2011 than an expression of our sincere appreciation for your loyal support and camaraderie. Time has passed and carried us along with it, changing us, advancing us and setting us in motion toward the accomplishment of our mutual goal. Many words have been written this past year, in this publication and countless others. Speeches and seminars have been conducted at our Night of Clarity events and many of your own. Together we have brought the powerful message of Austrian Economics, The Sound Money Solution and Privatized Banking to receptive and excited audiences everywhere. Once more, they are receiving it with gladness and joining us in our effort to change the course of history. What is truly amazing is that it's working. You know in your heart that these are not idle words, but an actual dream we are seeing fulfilled.

Through it all it has been your consistent encouragement which has sustained us. We keep counting on it. With your help we have pushed aside our fears and embraced hope with all of our might, denied our frustrations, and thought only of turning difficulties into opportunities. Tomorrow is today's dream. With you working with us, shoulder to shoulder, we will see it realized. 2012 will not be so much a new year, but a new soul— a new spirit permeating the entire country.

Our growth has just begun. Your families and your friends are an important part of that growth. Please continue to share our ideals with them. Many times an outside voice can pierce the mind where you may not have been able. The goal is to not lose any of them, especially them. If we are to win this battle over the minds of men, we need the right kind of people to succeed. Those closest to you are those people. Anything we can do to help in this vital area will be a privilege we will not take lightly.

Once again, thank you! Tomorrow we are going to start with a blank page and together we will put tomorrow's words on it. Let's make them unforgettable and life changing.

Happy New Year!

Yours Truly,

Carlos and Bob

PULSE ON THE MARKET

A black and white photograph of a street sign for WALL ST. The sign is mounted on a pole and features a '1-9' highway shield. The background shows a dense urban skyline with several tall buildings, including a prominent classical-style building with a dome. The image is tilted, creating a sense of height and perspective.

Recent
developments
that may be
of interest to
readers of the
Lara-Murphy
Report...

Hungry, Hungry Euros. On December 21 the European Central Bank (ECB) advanced nearly 490 billion euros' worth of low-rate three-year loans to European banks. The ostensible purpose is to prevent the financial markets from freezing up due to a liquidity crunch, and to encourage banks to buy the sovereign debt of Greece, Spain, and other beleaguered countries. We suspect that the real reason is, to put it bluntly, to rescue the big banks at the expense of the average European. (See Murphy's essay in this issue for details of how the Fed plays this particular game.) In any event, the stock market reaction was short-lived. Apparently printing up new money doesn't fix structural problems.

Hungry Euros

Do You Feel Lucky? Doug French, president of the Mises Institute, drives home the fragility of the European situation by explaining that "Deutsche Bank is levered at 43:1 and the Bundesbank has doubled its leverage since 2007 when it was geared at 75:1 — these days the central bank is levered at 153:1. Extreme leverage is a problem if the slightest thing goes wrong — anywhere." He also reports that American banks are on the hook for \$181 billion of the PIIGS sovereign debt.

Feel Lucky

S&P Doesn't Discriminate. After causing a stir in the summer when it did the unthinkable and downgraded Uncle Sam's AAA bond rating, S&P earlier this month warned investors it might have to downgrade the debt of fifteen European Union governments (including Germany and France) as well. Folks, we've been warning since our book came out that this party's just getting started. Only those well-versed in Austrian economics will at least be able to understand what's happening, when things really start falling apart.

Get S&P'ed

Let's Make Him a Fisher of Economists. Whether he actually believes the stuff, or just thinks it's a good career move, Dallas Fed President Richard Fisher has been giving speeches lately that are right up our alley. On December 16, before the Austin Chamber of Commerce, Fisher explained that he opposed further monetary loosening because the problems with the economy were non-monetary in nature. According to Fisher: "[F]urther accommodation was unlikely to motivate the private sector to put people back to work. It might even prove counterproductive should it give rise to fears the Fed is so hidebound by academic theory as to be blind to the practical consequences of harboring an ever-expanding balance sheet. This inevitably raises concerns we are creating distortions in the fixed income markets that inhibit proper market functioning, or concerns that—despite our protestations to the contrary—we are given to monetizing the government's debt, an impulse that ultimately destroys a central bank's credibility." But before you get excited, we should warn you that Fisher is supposed to step down from the Federal Open Market Committee in January, with his voting position presumably to be filled by somebody who's not afraid of a little inflation.

Fishing for Answers

Honduras Is Lovely This Time of Year. Financial blogger Robert Wenzel relays news that the Honduran government is apparently in negotiations with two libertarian groups who want to develop "free cities." One of the groups is run by Patri Friedman (grandson of Milton), founder of the Seasteading Institute (<http://seasteading.org>), an organization devoted to building floating platforms of liberty. A lot of critics dismiss it as a crazy venture, but hey, did the Twitter business plan sound good at first?

Free City

Wait, What Does “MF” Stand For? This month Christopher Elias came out with a widely-cited analysis of the MF Global scandal at Thomson Reuters. (Simply google “Elias MF Global re-hypothecation” to find the article.) Here’s a teaser: *“MF Global’s bankruptcy revelations concerning missing client money suggest that funds were not inadvertently misplaced or gobbled up in MF’s dying hours, but were instead appropriated as part of a mass Wall St manipulation of brokerage rules that allowed for the wholesale acquisition and sale of client funds through re-hypothecation. A loophole appears to have allowed MF Global, and many others, to use its own clients’ funds to finance an enormous \$6.2 billion Eurozone repo bet.”* You see, this is the problem with putting the government in charge of regulating financial markets. When someone is an out-and-out crook and steals more than a billion dollars from clients, the government might just decide to do exactly...nothing. By the way, we aren’t holding our breath in hopes that more regulations will solve the problem. Remember the Enron, Tyco, and other accounting scandals early in the George W. Bush presidency, that gave rise to Sarbanes-Oxley? *That* was supposed to be the new framework to clean up Wall Street. Are the politicians really going to get it right if we give them one more shot?

MISSING FORTUNE

Austrian Economics Is Huge... The Economist magazine has a decent summary of Austrian economics, in the context of heterodox challenges to the reigning Keynesian orthodoxy. (Besides the Austrians, the article also discusses “market monetarism” and “neo-chartalism.”) The article is titled, “Marginal revolutionaries” and is available here: <http://www.economist.com/node/21542174>. We encourage readers to at least scroll through it, as the second cartoon features one-half (by identity, not weight) of the Lara-Murphy team.

GLOVES ON

You Are Not Alone. It turns out there are a lot more Ron Paul supporters out there than the major media would lead you to believe. On a recent appearance with Jay Leno, Dr. Paul handled himself well, discussing his ideas of sound money and non-intervention in military matters. The next guest was Joe Rogan, the host of the goofy show “Fear Factor,” who surprised the crowd by running out in a Ron Paul t-shirt. When Leno asked Rogan what he liked about Paul’s platform, Rogan responded, “Every single word that comes out of his mouth.” Oh, if you’re not a Rogan fan—we’re not—perhaps you’ll be more interested to learn that Kelly Clarkson recently tweeted, *“I love Ron Paul. I liked him a lot during the last republican nomination and no one gave him a chance. If he wins the nomination for the Republican party in 2012 he’s got my vote. Too bad he probably won’t.”*

RON PAUL

Keep Hope Alive, Kelly! We’re not trying to be “Mr. Know It All’s”, but Ms. Clarkson’s pessimism may be unfounded. As of this writing, Ron Paul is arguably the front runner in the Iowa caucuses, and Michele Bachmann’s Iowa campaign manager, Kent Sorenson, just jumped ship and endorsed Ron Paul! Here’s Sorenson’s explanation: *“I believe that we have a clear top-tier race. I believe that is between Ron Paul and Mitt Romney. I believe that the Republican establishment is going to rise up against Congressman Paul. I think we’re seeing that, with the comments that Newt Gingrich made earlier in the week [about not voting for Paul if he were the nominee]. The real crux of the matter is that we’re at a point now where we can elect somebody like Mitt Romney, who is the same as Barack Obama, except maybe a little bit more frugal. He’s a frugal socialist. Or we can elect somebody who’s going to stand up for what our Founding Fathers believed this country was built upon.”*

MOMENTUM

The Golden Rule



BY L. CARLOS LARA

Nelson Nash's blockbuster best seller, *Becoming Your Own Banker*, in addition to describing a unique financing system using dividend paying whole-life insurance, is also a book filled with vignettes of wisdom and proverbs that are not easily forgotten by even the most casual of readers. However, one particular section of the book is noticeably set apart from the rest and can only be classified as a list of warnings. These warnings, which the reader is admonished to heed, are found in Section II beginning on page 31 entitled *The Human Problems*.

Supporters of Nelson's book know these warnings by heart. More importantly, these fans have developed a great deal of respect for them, in much the same way as we respect fire with

the knowledge that it will burn if you get too close. In other words, they don't take these warnings lightly. Their attractive titles easily draw readers for a closer inspection, but it is upon contemplation of them that they soon recognize that their requirements can be followed only with an unusual amount of discernment and discipline. The five warnings are as follows: *Parkinson's Law*, *Willie Sutton's law*, *The Golden Rule*, *The Arrival Syndrome*, and *Use It or Lose It*.

In this article, I want to briefly describe each one of these important cautions, at least as I understand them, and then elaborate on one of them in particular. It happens to be my favorite. Here I refer to The Golden Rule, or more accurately, the perversion of it. I will describe The Golden Rule in detail later, but first Parkinson's Law.

UNDERSTANDING PARKINSON'S LAW

There are several themes in Nelson's chapter devoted to this little book of wisdom written by C. Northcote Parkinson. However, the overarching message seems to be *procrastination*. It is the whole idea of putting off the taking of necessary actions. In other words, stalling, or postponing until the last minute things which should have been done long ago. This very day, I have been a prime example of breaking this law — I have waited until the last minute to write this very important article, knowing full well it should have been done days ago. Now I am faced with an almost impossible deadline. If you are honest with yourself, you most likely have broken this rule today as well because we all do it. That is the frustrating part, but the good news is that the law can be overcome and it must be. Overcoming procrastination is what moves us steadily forward accomplishing our tasks in order of their priority, exercising a rare discipline most people cannot achieve. As Nelson warns, "*Parkinson's law must be overcome daily.*"^(1.)

WILLIE SUTTON'S LAW

Understanding Willie Sutton's Law, Nelson makes easy for us by condensing its meaning in bold type. "*Sutton's law is formulated thusly,*" he says, "*whenever wealth is accumulated someone will try and steal it.*"^(2.)

As he expands these

Overcoming
procrastination is
what moves us steadily
forward accomplishing
our tasks in order
of their priority....

Photo from Flickr by: Dan Zen



thoughts in this brief chapter he makes clear that theft, especially when legalized, is our modern world's greatest foe. What is obvious, as he points to several historic examples, is that legalized theft is growing at an alarming rate. This gross disorder of man has its origin in human nature's dark side, and is the catalyst for the very idea of socialism. Mises, the most famous of the Austrians, proved without a shadow of a doubt that socialism cannot succeed, but unfortunately, before man recognizes its failure, it will cause massive economic destruction to society. Look around you and see the proof of what it has already done. There is now no safe harbor left for our money. This is why Mises called it an evil idea. Yet, very few people can connect these critical dots; so called financial experts

only aggravate this problem for the public. This is the nature of Nelson's warning and why he points us to dividend paying whole-life insurance as the only remaining bastion of hope and security for our wealth. It is the starting point of returning money and banking to the private sector where it belongs. Reach for it as a drowning man reaches for a life line, or pay the price.

THE ARRIVAL SYNDROME

The Arrival Syndrome is very closely related to the law we just described in the above paragraphs. The one reason most people are unable to connect the dots and see the world properly is that they "*already know all there is to know.*"^(3.) Or, at least, this is what they think. It's the "*boiled frog*" syndrome. Nelson says

that this one human problem has limited the achievements of mankind more than anything else. "*When this thing infects us, we stop growing, stop learning. We ROT.*"^(4.) Above all, it keeps people from being able to see the banking and financing qualities of dividend paying whole-life — they see only life insurance. Don't get into a delusional comfort zone, he warns. Stay open-minded and alert. "*If you understand what's really happening, you'll know what to do.*"^(5.)

USE IT OR LOSE IT.

The meaning of *Use It or Lose It* can be tricky to understand from the way Nelson explains it in the one page of his book. In order that we don't misunderstand his real message, let's diagnose it by highlighting the relevant points Nelson clearly makes.

1.) "*All the concept amounts to is the recognition of the fact that your own capital has a cost of money as well as that which has been borrowed from banks.*"

2.) "*In talking with members of the Infinite Banking Concept think tank we continue to notice that many are still caught up in the posture of thinking that the matter is a function of interest rates. This is a fatal error.*"

3.) "*It has to do with recognizing where money is flowing to and the failure of charging interest to yourself for the things you buy using your own banking system.*"

4.) *“Anytime that you can cut out the payment of interest to others and direct that same market rate of interest to an entity that you own and control, which is subject to minimal taxation (life insurance companies do pay taxes), then you have improved your situation.”*^(6.)

Obviously, the easiest part to understand is that the Infinite Banking Concept must become a way of life, hence, *“you must use it or lose it.”* Everyone understands full well that borrowing \$10,000 at 8 percent for a business project that will tie up the funds for a year will carry an interest expense of \$800. However, many people think that if instead of borrowing the money from an outsider, they used their own money instead, that there would be no interest expense. Yet Nelson points out that this is wrong: That money could have been “at work” earning interest elsewhere, and so this implicit cost of using the funds must be taken into account. To treat your own cash as having zero opportunity cost, would be like the owner of the Ritz-

Carlton letting his brother-in-law sleep in a luxury suite every night, thinking that it was free.

Aside from this easier understanding, what must be more fully grasped is that individual ownership of an insurance policy is analogous to ownership of a mutual life insurance company by its policy holders. Though a policy owner does not actually control the insurance company in the same way he controls his policy, he does, in a real sense, have ownership in both. However, the policy owner doesn't actually pay back interest directly to his own policy unless he overpays the interest to the insurance company and the excess amount goes toward reducing the policy loan. In a policy loan situation the policy owner is actually borrowing the money from the company and only using his cash value as collateral. Nevertheless, the policy owner is still clearly benefitting from the loan arrangement because of the on-going compounding of money. Yes, the interest payments

are most certainly made to the insurance company. But, let's keep in mind that in a much broader sense, the policy owner's interest payments are in effect going to the company in which he also shares ownership. Interest payments made to an entity you own in this fashion and with minimal taxation will most definitely improve your situation each and every time. This is a rare and unique distinction unavailable from any other traditional financial instrument in our world today.

The idea of charging yourself interest for the things you buy as a strategy to pay back your policy loan is only common sense, but only for those that understand that your own capital has a cost of money. Once you come to understand this important principle you understand the full measure of his counsel.

THOSE THAT HAVE THE GOLD

MAKE THE RULES.

Nelson makes clear in this chapter that he is playing on the perversion of The Golden Rule in order to make obvious a reality of life that has gone undetected far too long, much to the detriment of society. Its summation is as follows:

“Most people know there is a play going on out in the world—but they don't understand it. Worse than that, they can't get the characters in the play straight! People just don't play their proper role in the scheme



*of things. They have abdicated their opportunity/responsibility as it pertains to the banking function in the economy. They are depending on someone else to perform that job—and that character in the play is **making most of the money!** And rightly so, because of the Golden Rule—**those that have the gold make the rules!** It can be no other way!*^(7.)

Imagine yourself living during the middle ages where gold coins and bullion is the commodity money—the standard medium of exchange. In order to buy things you many times must travel great distances to certain market places where a larger variety of goods and

services are sold. This means you must of necessity lug your heavy money around with you when you go shopping. Right away, this presents a problem, not only because of the heavy weight of your money, but also because you could be robbed on your journey, or simply lose it. Clever merchants have already begun extending credit, allowing people to walk away with the merchandise without immediate payment so long as you pay it back later, but for a price of course. They call this extra payment *interest*, because of the time you take before you pay them back and because of the service they provide for the aforementioned problem with gold. Some of these merchants

have gotten pretty skillful at providing this service. In fact, they no longer call themselves merchants, instead they are known as bankers—*loan bankers*. It's a pretty good business. We should all be in it.

This problem with gold has also gotten the attention of another group of cunning merchants who've developed an idea that is just as ingenious as the loan bankers, although unrelated to loans. These merchants are the *goldsmiths*. They will store your gold while you travel, shop, or just for general safekeeping purposes. This solves the problem beautifully, especially if you are dealing with a trustworthy goldsmith. You simply store your money in their warehouse and receive a receipt that allows you to reclaim your money when you need it. They will provide this service for a fee, of course, but it's only a storage fee. It's not an interest payment because it's not a loan. Somehow that seems more reputable and it pleases the church fathers who disdain money lenders. These goldsmiths have gotten quite profitable at this storage business and have begun calling their money warehouses *deposit banks*. The people are pleased. It's an invaluable service.

As time moves on an interesting phenomenon occurs. The goldsmiths one day realize that their customers are beginning to trade the storage receipts as though they were money. Rather than returning back to the warehouse to



Photo from Flickr by: David Stanley

reclaim the gold after a customer purchase, merchants retain the receipts themselves and use them in turn for their own purchases. This meant that there was always a certain amount of unredeemed gold back at the warehouse;



Photo from Flickr by: wwarty

gold that could easily be used to make an additional profit by the goldsmith without detection. In fact, this sort of embezzlement could go unnoticed for years and no one would be the wiser. It would be easy for the goldsmith to print up more money (storage receipts) and lend them out to earn even more interest income. He could actually print millions of these even though only a

fraction of the gold would be left in the warehouse for redemption purposes. However, if he can manage to achieve the right balance between deposits of gold and storage receipts he could become quite wealthy. Human nature being what it is, this temptation proved to be irresistible.

The problem with this sort of theft is that the fear of getting caught never leaves you. The goldsmith, now a wealthy man overseeing a highly profitable enterprise, needs to somehow convince the courts that his business practices are not criminal, but simply entrepreneurial activities. If all of his storage customers were to return to the warehouse on the same day to reclaim their gold, the goldsmith would be caught red handed and be imprisoned. Or, if one of his receipts is presented to a competing money warehouse, who in turn presents it to his warehouse for redemption, he could again be caught in his crime if the receipt is for an amount he can't possibly redeem. Therefore, the gold placed in the warehouse for storage purposes needs to be

redefined as a loan in order for the goldsmith to be emancipated from his wrongdoing. There is no way out for the goldsmith except to confess his crime or use his money and power to change the law! This is why the banking law was eventually changed. *"It can be no other way! Those that have the gold make the rules."*

Although this sounds like a tall tale from the distance past, it is a historical fact—facts that even our own Federal Reserve acknowledges.

"The actual process of money creation takes place primarily in banks... more notes could be issued than the gold and coin on hand because only a portion of the notes would be presented for payment at any one time...this unique attribute of the banking business was discovered centuries ago. It all started with the goldsmiths."^(8.)

These are the origins of *fractional reserve banking*, that infamous money multiplier that permeates the entire banking industry and has been channeling the wealth of societies into the hands of corrupt bankers for a

The main point is this: our money is not fully in our control. The central bank of the United States—the Federal Reserve—has a complete monopoly on our money, a control mandated by our federal government.

very long time. The British courts actually ruled in favor of deposit banking long ago by defining the money deposit with the goldsmiths as a debt contract. These decisions were later approved by American courts and were ultimately adopted as our banking laws. In 1848 the House of Lords ruled in the case of *Foley v, Hill and Others*:

it or deal with it as the property of his principal; but he is, of course, answerable for the amount, because he has contracted."^(9.)

It is principally for this reason that no bankers to date have gone to prison for their crimes leading up to and including the financial crisis of 2008. Their deeds are legalized and the central bank, their lender

Even as recently as a month ago, Jon Corzine, former U.S. senator, former governor of New Jersey, ex-employee of Goldman Sachs and CEO of bankrupt MF Global is not able to tell the public where or how 1.2 billion in client funds disappeared. This would be no different than our own local bank not being able to produce evidence of our money if we were to all return on the same day expecting to collect our deposits in full.

The main point is this: our money is not fully in our control. The central bank of the United States—the Federal Reserve—has a complete monopoly on our money, a control mandated by our federal government.

THEY HAVE THE GOLD.

So long as they do, government and big banks will continue to make the rules that work only for them. If we are ever to hope for a free market economy and the enjoyment of all of our individual liberties, money and banking must return to the private sector. Monetary policy must change.



“The money placed in the custody of a banker, is to all intents and purposes, the money of the banker, to do with as he pleases; he is guilty of no breach of trust in employing it; he is not answerable to the principal if he puts it in jeopardy, if he engages in hazardous speculation; he is not bound to keep

of last resort should they get into trouble, is always there to help. According to bankers, fractional reserve banking is perfectly legal as long as bankers, including Wall Street bankers, inform depositors in the fine print that the bank will be using customer money to make loans and investments.

THE GOLDEN RULE Bibliography

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PARSING BERNANKE'S RIDICULOUS EXCUSES

BY DR. ROBERT P. MURPHY

In last month's issue of the *Lara-Murphy Report*, we mentioned in passing a Bloomberg analysis quantifying the extraordinary—and secret—assistance that the Fed had given to the big banks since the financial crisis developed.⁽¹⁾ Key factoids from the Bloomberg analysis were reported in news outlets and blogs all over the world. On December 6, Fed chief Ben Bernanke sent a memo to Congress,⁽²⁾ claiming that the press accounts contained “numerous errors and misrepresentations” of the Fed's activities during the crisis.

In the present article I'll walk through some of Bernanke's ridiculous excuses. My ultimate conclusion will be that the original Bloomberg story got it right: The Fed has indeed been shoveling money to the big banks, and not even Congress knew exactly what the Fed was up to.

Carlos and I explain in our book that the Fed is a harmful institution because it fuels price inflation and the boom-bust cycle, but there is a distinct problem that the present episode illustrates: The Fed is a corrupt agency, with its own interests, and it will lie to protect its turf just like a typical government bureaucracy.

“It is true that, generally, the names of the counterparties and borrowers from the emergency facilities were not immediately disclosed, consistent with general central banking practice.”

WERE THE FED BAILOUT PROGRAMS

“SECRET”?

The first alleged myth that the Fed memo takes on, concerns the secrecy of its programs. The memo declares:

“No lending program was ever kept secret from the Congress or the public. All of the programs were publicly announced when they were initiated, and information about all lending under the programs was publicly released.”

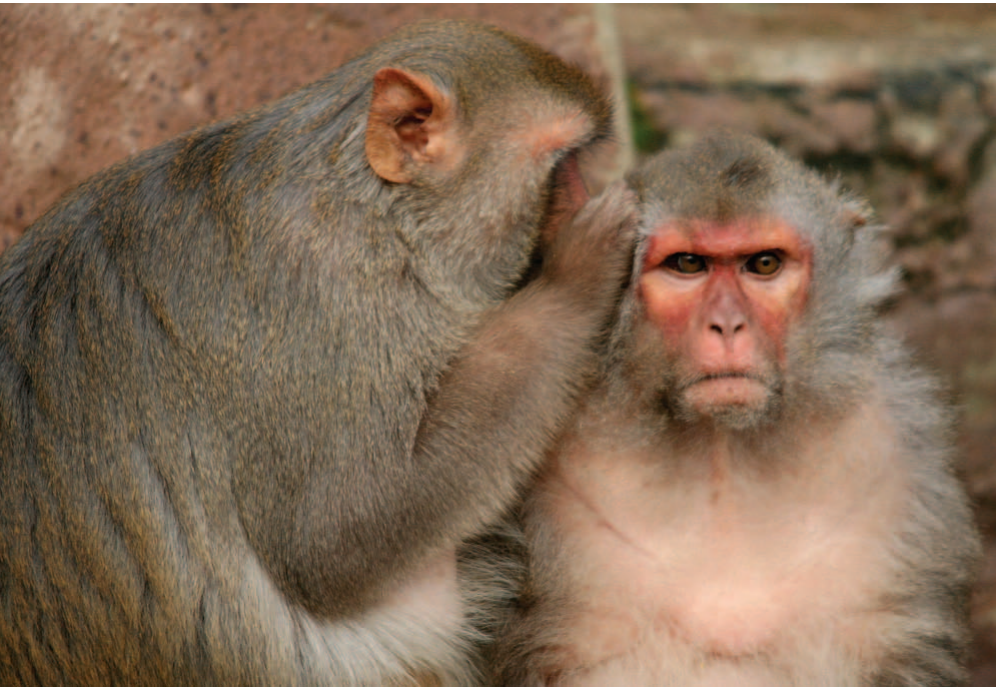
This is true as far as it goes, but there is still a quite obvious sense in which the Fed programs were secret. To show why, we need only quote from the next paragraph of the Fed's own explanation:

“It is true that, generally, the names of the counterparties and borrowers from the emergency facilities were not immediately disclosed, consistent with general

central banking practice. Releasing the names of these institutions in real-time, in the midst of the financial crisis, would have seriously undermined the effectiveness of the emergency lending and the confidence of investors and borrowers.”

So let's be clear on the Fed's position: They are saying that because they posted on their website how much total money had been lent out under a particular program, these weren't “secret”—even though Congress asked Bernanke before a subcommittee to reveal the names of the banks taking out those loans, and he told them no.

For an analogy, suppose the KGB sent out a memo saying, “We resent the term ‘secret police’ being applied to our members. Every week we post a public update of how many Soviet traitors we have disappeared. It's true, consistent with security force practice, we won't reveal



words, people didn't really know until Congress forced the Fed to dribble out some of the facts.

What's even funnier is that the "[a]dditional disclosures of discount window borrowers" and other information released on March 31, 2011, were because of a Bloomberg Freedom of Information Act request, which the Fed fought. It was only when the Supreme Court refused to hear the issue, that the Fed was forced to comply with the further release. Here's how a news story from March 21, 2011 explained the situation:

"The Supreme Court today (March 21) refused to intervene in a long-running Freedom of Information Act (FOIA) suit filed by Bloomberg News in 2008. Thus, the Federal Reserve will have to release information on emergency loans it made to Wall Street banks and others during the height of the financial crisis of 2008. Bloomberg's initial FOIA request was thumbed down by the Fed. Bloomberg sued. A New York federal appeals court ruled that the public, through the media, should have access to the Fed's loan data. A group of banks appealed to the Supreme Court, which today refused to intervene. The Fed said it would make the information available."^(3.)

In light of the above context, Bernanke's current stance is a bit like Richard Nixon claiming he hadn't hidden anything from the country, because after all he resigned.

the names of these enemies of the State or what their particular offenses were. That would simply tip off saboteurs and defeat the purpose of our programs." Would anybody be reassured by that type of explanation?

TALK ABOUT CHUTZPAH

The Fed's defensive memo gets truly funny a bit later. Continuing with their protests that they were the furthest thing from secretive, the Fed memo writers declare:

"Under provisions of the Sanders Amendment, the names of all counterparties and borrowers from the emergency lending facilities and the Term Auction Facility (TAF) were disclosed on December 1, 2010. Data provided included the names of the borrowers, the date that credit was extended...and other relevant

terms....Additional disclosures of discount window borrowers and transactions information were made on March 31, 2011."

As I say, the above excerpt is laugh-out-loud funny for people familiar with the issue. First of all, the initial data dump on December 1, 2010 was only because of the Sanders Amendment (to the Dodd-Frank legislation), and this referred to the transactions that were in full swing in late 2008 and early 2009. So to refute the claim that the Fed was making huge loans to banks and then keeping it a secret from Congress, the Fed explains that two years after the enormous loans, new legislation by Congress forced the Fed to come (partially) clean. It was precisely because of the revelations in that December 2010 release that analysts began filling in the details of the Fed's extraordinary programs. In other

BILLIONS IN ARBITRAGE INCOME

The Fed memo goes on to complain about inaccurate reporting concerning the totals of various programs. Some of these complaints are justified. For example, if the Fed rolled over a \$1 billion loan to a particular bank ten days in a row, some analysts were counting that as \$10 billion in lending, and thus getting enormous numbers for “total loans” that the Fed granted to the banks.

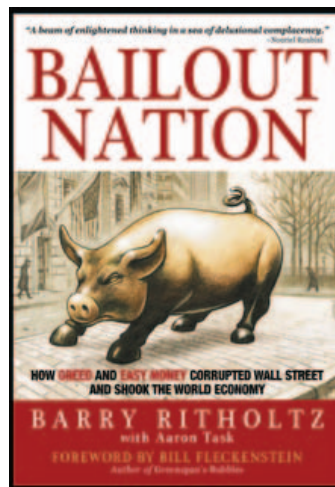
In this article, I want to focus on the last issue from the memo, which concludes:

*“Finally, one [news] article incorrectly asserted that banks “reaped an estimated \$13 billion of income by taking advantage of the Fed’s below-market rates.” Most of the Federal Reserve’s lending facilities were priced at a **penalty** over normal market rates so that borrowers had economic incentives to exit the facilities as market conditions normalized, and the rates that the Federal Reserve charged on its lending programs did not provide a subsidy to borrowers.”*
[Emphasis in original.]

Here the Fed memo is referring to the late-November Bloomberg analysis. As Bloomberg itself admits, the \$13 billion figure is a guess, because—to repeat—the Fed (still!) hasn’t released all of the information necessary to make an exact calculation. However, the Fed’s own statement above reveals that it is lying.

Look closely at the language. The Fed says it hasn’t been subsidizing the banks, since it is granting them loans at interest rates that would be penalty-level *during normal times*. But obviously, *during the crisis*, those rates were better than the banks could have obtained from private-sector lenders. That’s why the banks went to the Fed for their liquidity needs, after all. Now perhaps the programs were justified, or perhaps they weren’t, but the Fed shouldn’t be shocked, shocked that they are being accused of bailing out the bankers.

Barry Ritholtz (author of



the bestselling *Bailout Nation*) did a good job summarizing the game in an April 28, 2011 blog post:^(4.)

“At yesterday’s presser, Fed chief Ben Bernanke indicated an easy policy stance for the foreseeable future.

While the basis of this is the ostensibly high unemployment, I believe it is really to buy time to

rehabilitate the bank’s balance sheets. They remain poorly capitalized.

Rather than put insolvent institutions into reorg, we have allowed [them to] hang on slowly getting better through a massive back door bailout: Borrowing from the Fed at near 0%, and lending it right back to Treasury at 2-3%. This is more politically acceptable than just writing them checks for \$100s of billions of dollars.

Consider:

...

•Q4 2008, JPMorgan Chase had an average of \$10.1 billion in outstanding Fed loans with a 0.6 % interest rate while it held \$10.3 billion in U.S. government securities with an average yield of 1.7%.

•Q1 2009, JPMorgan Chase had an average of \$29.2 billion in outstanding Fed loans with a 0.3% interest rate and held \$34.6 billion in U.S. government securities with an average yield of 2.1%.

...

•Q4 2008, Citigroup received \$15.8 billion in Fed loans through the Fed’s Primary Dealer Credit Facility with a 1.2% interest rate; \$11.6 billion in Term Auction Facility loans with a 1.1% interest rate; and \$4.9 billion in Commercial Paper Funding Facility loans with a 2.7% interest rate. It simultaneously held \$24 billion in U.S. government securities with an average yield of 3.1%.

...

(Sources: Federal Reserve, US Senate)

Money and banking should be completely returned to the private sector, where they originated.

Similar arbitrage has existed for the top 20 banks since the Fed took rates down to zero.

The bailout has always been about rescuing the banks, their management, shareholders, and most especially, their creditors and bond holders.”

This operation largely explains how the big banks were able to post record profits in 2009, even as the rest of the economy was suffering because of the horrible decisions that these bankers had made.

As even Jon Stewart’s *Daily Show* writers recognized, what’s

basically going on is that the federal government has set up an institution—the Fed—that can create billions of dollars out of thin air, and then lend it to the banks at near-zero-percent interest rates. Then the banks turn around and lend that money to the government, charging a point or two more as a handling fee. The income derived from this whole process is quite safe—hence the term “arbitrage”—because the Fed’s commitment to roll over the loans, and the Treasury’s ability to extract the money from taxpayers to redeem its own bonds, don’t leave too much to chance, as far as the banks are concerned. They can plod along,

repairing their balance sheets as the quarters roll by, while everybody else scrambles to deal with high unemployment and the specter of rampant inflation.

CONCLUSION

Even if the Fed were run by angels, intending only to help Main Street, the economic analysis of the Austrian School shows that it is a harmful institution that should be abolished. Money and banking should be completely returned to the private sector, where they originated.

In reality, of course, the Fed isn’t run by angels, and its purpose is to help its rich cronies. It would be hard to invent a system more liable to corruption than one in which a small group of financial and academic elites can literally hand out billions of dollars to the most powerful people in the world, and don’t even have to tell Congress—let alone the average holder of US dollars—the details of the scheme.



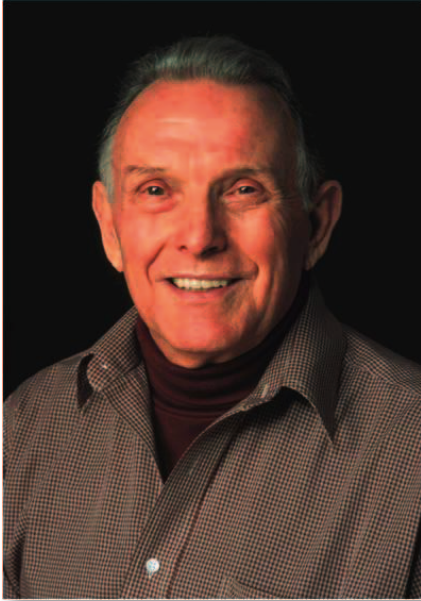
PARSING BERNANKE’S RIDICULOUS EXCUSES Bibliography

1. See Bob Ivory et al., “Secret Fed Loans Gave Banks \$13 Billion Undisclosed to Congress,” *Bloomberg News*, Nov. 28, 2011, available at: <http://www.bloomberg.com/news/2011-11-28/secret-fed-loans-undisclosed-to-congress-gave-banks-13-billion-in-income.html>.
2. Bernanke’s memo is available at: www.federalreserve.gov/generalinfo/foia/emergency-lending-financial-crisis-20111206.pdf.
3. See Don Bauder, “Fed to Release Information on Wall Street Loans during Crisis,” *San Diego Reader*, March 21, 2011, available at: <http://www.sandiegoreader.com/weblogs/financial-crime-politics/2011/mar/21/fed-to-release-information-on-wall-street-loans-du/>.
4. See: <http://www.ritholtz.com/blog/2011/04/bank-arbitrage/>.



**AUSTRIAN ECONOMICS
+ WHOLE LIFE**

**INFINITE
BANKING
CONCEPT**



R. Nelson Nash was born in Greensboro, GA in 1931, and married Mary Edwards Williams in 1952. Nash received a BS Degree in Forestry from the University of Georgia in 1952, and spent 30 years with the Army National Guard, where he earned Master Aviator Wings.

In addition to being a Consulting Forester for 9 years in eastern North Carolina, Nash was a life insurance agent with Equitable of New York for 23 years (Hall of Fame member), and The Guardian Life for 12 years.

*Nash describes himself as the “discoverer and developer” of The Infinite Banking Concept (IBC). He explains his revelation and how IBC works in his classic book, *Becoming Your Own Banker*, of which more than 200,000 copies have sold.*

Nash is also the publisher of BANK NOTES, a quarterly newsletter. He lectures all over the United States, teaching his book in ten-hour seminars, averaging 50 seminars per year.

Nash is a passionate student of Austrian Economics, having started this pursuit over 54 years ago.

Lara-Murphy Report: For the benefit of our readers who’ve never heard one of your seminars, can you explain how you discovered Austrian economics?

Nelson Nash: It was back in the mid-50s. I had to go on active duty with the Air Force upon graduation from college. When those two years were up, I moved to Eastern North Carolina to begin my forestry career. By the way, I did not work for the government – Smoky Bear and I don’t see things exactly the same. I worked for private landowners by contract.

I knew nothing about socialism, but, inherently I knew something was wrong about it. I also didn’t realize how much the ideas of socialism permeated the thought process of folks involved

in forestry, so I came face-to-face with the mental paralysis that the monster creates in the human mind. I could not believe what I was witnessing! Why would anyone behave that way?

So, here I am “mouthing off” at a social gathering at the home of a radiologist about what I had

experienced. He went back to his library and brought me a copy of Henry Hazlitt’s *Economics in One Lesson*. “Try reading this,” he said. A couple of weeks later I had finished it. I took it back to him and asked two questions, “Where have you folks been hiding this stuff?” and, “Why did you hide it from me?”

The study of Austrian Economics and history became my passion and remains so to this day.

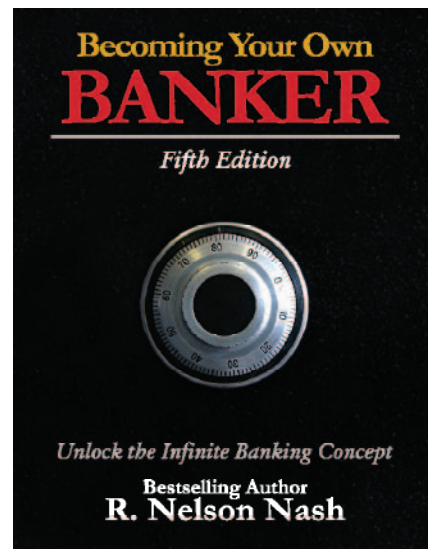
He replied, “If you liked it, get on the mailing list of this monthly journal called ‘The Freeman’ that is published by an organization called The Foundation For Economic Education (FEE). All you have to do is ask for it – and they will never ask you for money. But, they are entirely supported by donations. If you have not sent them some money in a year, they will simply take you off the mailing list.”

The more I read, the better it got. I was particularly attracted to the writings of Leonard E. Read and Dr. Clarence B. Carson. Within the next ten years I had become good friends with Leonard and he became my mentor. We had Leonard down to Birmingham every year for many years. Another ten years pass and my wife and I met Dr. Carson at a gathering that we sponsored for Foundation for Economic Education conducted by Leonard Read. Soon after we began to work with Dr. Carson on the board of directors of his organization. The study of Austrian Economics and history became my passion and remains so to this day.

LMR: Let’s suppose a reader is fully on-board with the basic Austrian message, but he doesn’t know much about life insurance. What would you say to this person, to encourage him to research the area further? Why is it worth his time, if he already understands the dangers of fiat money, central banking,

and so forth? What is it that your perspective offers to him, that he’s currently lacking?

NN: That’s the reason I wrote the book, *BECOMING YOUR OWN BANKER - Unlock the Infinite Banking Concept* back in October 2000. There is no way to give a simplistic explanation to one who is not acquainted with the concept. It takes time to develop a rationale that is totally different from what most folks think. So, life insurance agents



who use my book to educate prospects/clients might say, “Mr. Prospect, I found this very interesting book – at least it is interesting to me – because it has changed the lives of thousands of people all over the country. I’d like your opinion of it. Would you read it and let me know what you think? Give me \$25.00 — that’s the retail price plus shipping costs. When you have finished it – if you don’t like it – I’ll buy it back.”

Or, one might say, “How would you like to make the interest that the banking industry is making off of you on the major purchases that you make during your lifetime, like automobiles, houses, business equipment, etc. – and do it on a tax-deferred basis? Read this book and learn how to do it.”

As to your other questions, practically no one realizes that the primary source of inflation in our economy is done through local commercial banks. They lend money that

doesn’t exist! That is fraud! When one makes a loan from a life insurance company and uses the cash value of his policy as collateral, there is no inflation of the supply of money. It is from savings by all the participants when they buy dividend-paying whole life insurance from a mutual company – that is, an insurance company that is owned by the policy owners. Very few people understand this fact.

LMR: Now let’s turn it around. Let’s say the reader has been a huge fan of your philosophy for years, and indeed she quit her previous job to become a very successful insurance agent, showing her clients how to solve their household’s financial problems with the disciplined use of properly designed dividend-paying, whole life policies. She knows that you happen to be a fan of Austrian economics, but views this as an incidental hobby you have, akin to you liking John Wayne movies. What would you

say to such a hypothetical fan, to encourage her to learn more about the Austrian worldview? Why does she need to bother with all of that “boring econ stuff,” if she is doing quite well in her current business?

NN: When one understands the teachings of Austrian Economics, and also understands how dividend-paying whole life Insurance works, it is easy to “connect the dots.” I have had a number of e-mails from people who have read my book and said, “This is Austrian Economics in action.”

LMR: Our roster of previous interviewees have attested to the immense growth in the popularity and influence of the Austrian school. Can you give us your perspective on the fortunes of the Infinite Banking Concept, perhaps telling us about your book sales and the acceptance of your views among insurance professionals?

NN: At this time, my book

has sold over 200,000 copies. We know thousands of people who will never see a bank again in their lives – except for the convenience of a checking account. My wife and I have not used bank loans of any kind for over seventeen years – again, except for checking convenience. It is a very peaceful way of life in addition to being very profitable. By using life insurance policy loans to make the major purchases that occur in life, we are – in effect – making off of us, tax-free. Do this over a number of years and the results are astounding!

Every month I am on a conference call with a large number of life insurance agents who are practicing this concept personally and with all of their clients. Just today, one of the agents was happy to report, “Thanks to what you have taught me, my family and I are now totally free of bank financing of any kind.”

Additionally, there are many

home office people in the life insurance business who had no real appreciation of the power of this concept – and now they are own significant amounts of the product. They were standing in the middle of a fantastic solution to financial problems – and they never saw it because of the way they were taught. Infinite Banking Concepts is an educational organization that is dedicated to rectify this misunderstanding.

LMR: One of our favorite lines from a talk you gave at our Night of Clarity conference in Nashville was something like, “In the decades that I have spent studying the Bible, I do not recall it saying, ‘And then Moses retired.’” Can you share with us your views on the typical American view, that you work at a job you hate for 45 years, so you can stack up a bunch of money and then start living once you retire?

NN: Retirement has got to be the most stupid idea that

...FDR got age 65 for American males for our Social Security in 1937 when life expectancy was around 61. Now life expectancy is 78. There is no way that the scheme can work.

“This is Austrian Economics in action.”

has ever come along. I have read the Bible through and through during my lifetime and I can't find anywhere that it says, “And, so Moses retired and lived happily ever after...” The word “retirement” doesn't appear in the vocabulary of human beings until about 1890. Bismarck, in Germany, came up with that

idea. They were the ones who gave the world the idea of Social Security. He set age 70 as retirement age for German males – and life expectancy for those folks was probably around 50. The odds were that no one would ever live to receive income from the scheme. Along comes World War I and he reduced it to age

65. That's where FDR got age 65 for American males for our Social Security in 1937 when life expectancy was around 61. Now life expectancy is 78. There is no way that the scheme can work. It will fail in due course – but our politicians say they are going to “fix it.”

Photo from Flickr by: chipgriffin



There is no way that they can “fix” something that is inherently defective. Americans have been sold a bill of goods with this crazy idea. I'm working on writing a new book right now, entitled, *Building Your Warehouse of Wealth: Think About It*. The book will include an extensive chapter dealing with the subject of retirement. For further reading I suggest *The Pension Idea* by Paul Poirot, a small booklet that he wrote back in 1950. It is available on our website, www.Infinitebanking.org. Mankind needs purpose in life. In March 2012 I will be 81 years old. There is no way to convince me to retire! This life is too much fun to miss out!



EVENTS & *Engagements*

2012

JANUARY 13 • HOUSTON, TEXAS
Murphy in Mises High School Seminar

JANUARY 14 • HOUSTON, TEXAS
Murphy at Mises Circle

FEBRUARY 9,10 • BIRMINGHAM, ALABAMA
Lara and Murphy present at the IBC Think Tank

APRIL 9 • MANKATO, MINNESOTA
Murphy presents Austrian Economics to students at Minnesota State Univesity

APRIL 20 • CHICAGO, ILLINOIS
Murphy and Lara will present at National Private Client Group

25 26 27 28 29 30

October

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9 10 11 12 13 14 15

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