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BANK NOTES is a quarterly newsletter published by Infinite Banking Concepts
R. Nelson Nash, Editor

HAPPY NEW YEAR TO ALL ! 2001 was the most wonderful year yet for me and for the efforts of Infinite Banking Concepts in "pushing back the frontiers of ignorance" about BECOMING YOUR OWN BANKER through the use of dividend-paying whole life insurance. Book sales have exceeded all my fondest dreams and requests for speaking engagements are accelerating. Of course, this will result in more people building wealth at the personal level -- the real place where it should all be held. You should see the e-mail and other responses that I'm getting from all over the U.S.! It just doesn't get any better than this! Perhaps the most amazing thing is all the book orders that are coming in from people that are not in the life insurance business -- they are buying large quantities to give to friends and relatives. My wish for you is that 2002 will be even better for you -- that you will experience the joy of enriching the lives of others through new-found knowledge of how to become your own banker.

Here are a couple of e-mails to share with you:

Nelson:
I just want to thank you for writing this book. It is now 12:40 am and I just finished your book which I've only had for 36 hours. I hope you know that you just let a pitbull out of his cage. This information will help with my practice and change my life. I will share this information to every soul who comes in contact with me. We can literally help every willing person in our economic system. I'm am very passionate about this kind of information/education. My heart is literally beating 100 miles an hour I want to get out and share this with the World. The bad news is everybody is sleeping and I will probably be up most the night. I won't ever sell another variable universal life again. You have answered most of my questions about this wonderful tool. Again I want to thank you, and I can tell you are a man of great integrity you have really opened my eyes.

Thanks,

Bevan J. Wilde

Nelson,

You Did it! We had an overwhelming response to the broadcast! People are really interested in financial success, especially when it appears to be within their reach. And that is what you do in your book and did again on the radio.

Thanks for the great interview,

DJ Adams

D. J. has a radio talk-show program in St. George Utah and interviewed me recently for an hour.

Exclusive: Sir John Templeton, one of the world's most respected investment advisers, in an exclusive interview with NewsMax.com editor Christopher Ruddy says that the recent run-up in the stock market was "the biggest financial insanity ever in any nation in history" and has led to a stock market crash greater than the Great Crash of 1929. He is advising investors to stay out of the market - and he doesn't expect a recovery from the resulting slump anytime soon. He also thinks President Bush's tax cut will help. Also: Find out Who Sir John Templeton Is, read Excerpts of Interview With John Templeton, and see who won The Templeton Prize This Year. Meanwhile, Market Slumps Despite Fed Rate Cut.

For what is meant by saying that a government ought to educate the people? Why should people be educated? What is education for? Clearly, to fit the people for social life – to make them good citizens. And who is to say what are good citizens? The government: there is no other judge. And who is to say how these good citizens may be made? The government: there is no other judge. Hence the proposition is convertible into this – a government ought to *mold* children into good citizens…It must first form for itself a definite conception of a pattern citizen; and, having done this, must elaborate such system of discipline as seems best calculated to produce citizens after that pattern. This system of discipline it is bound to enforce to the uttermost. For if it does otherwise, it allows men to become different from what in its judgment they should become, and therefore fails in that duty it is charged to fulfill.

Herbert Spencer (1820 – 1903)

Go to Yahoo.com and look him up.

For me to try to change your mind is futile; it is an inversion of the educational or eductive process. It is the other way around: you reach for me and then only if I have something you consider worth reaching for. A good rule: Go only where called but do everything within one's power to qualify to be called.

* * *

Superior teachers seek truth rather than followers. They count it success when their fellow seekers -- students -- eventually surpass them.

---- Leonard E. Read

THE "TWO-COW EXPLANATION" OF WHAT MAKES...
A SOCIALIST:

You have two cows. The government takes one and gives it to your neighbor.

A REPUBLICAN:
You have two cows. Your neighbor has none. So what?

A DEMOCRAT:
You have two cows. Your neighbor has none. You feel guilty for being successful. You vote people into office who tax your cows, forcing you to sell one to raise money to pay the tax. The people you voted for then take the tax money and buy a cow and give it to your neighbor You feel righteous.

A COMMUNIST:
You have two cows. The government seizes both and provides you with milk.

A FASCIST:

You have two cows. The government seizes both and sells you the milk. You join the underground and start a campaign of sabotage.

DEMOCRACY, AMERICAN STYLE:
You have two cows. The government taxes you to the point you have to sell both to support a man in a foreign country who has only one cow, which was a gift from your government.

CAPITALISM, AMERICAN STYLE:
You have two cows. You sell one, buy a bull, and build a herd of cows.

BUREAUCRACY, AMERICAN STYLE:
You have two cows. The government takes them both, shoots one, milks the other, pays you for the milk, then pours the milk down the drain.

AN AMERICAN CORPORATION:
You have two cows. You sell one, and force the other to produce the milk of four cows. You are surprised when the cow drops dead.

Doing Everything Wrong

by Sean Corrigan

Despite yet another half-point cut in interest rates from three of the world's more important central banks--as well as various reductions from a host of their satellites--the noose is gradually tightening around banks and financial institutions everywhere, not just in the Asia, but in the U.S., Europe, and Canada, too, as news arrives of multiple increases in loan loss provisions, matched by default rates on corporate bonds which climb ever nearer to post-Depression highs.

This clearly demonstrates how widespread is the banking tug-of-war between the beneficial cash flow impact to be expected from artificially lowered funding costs, steeper yield curves and higher bond prices, and the detrimental effects of past poor lending decisions and VC follies on profits and, more importantly, capital.

Not that the effects will be confined to those nations. Consider that the latest data for the UK show that lending to the household sector has increased 1.75 times as fast as disposable income this past year, taking the debt ratio to nearly 108 percent in the process.

In Australia, too, for much of the past year, credit to individuals has accounted for fully three-quarters of all lending, and has similarly outstripped income gains, having grown at 10.3 percent in a year. It is not just in the U.S. that overstretch is endemic.

We have said before that whereas capital is the loan of the fruits of past labor, credit is a promise of labor to come. Making that promise in any form, in isolation from prior saving, can cause distortion enough, but when individuals give that pledge, they are usually doing it for the sole purpose of extra consumption.

Since we argue that consumption is the destruction of value (not the source of whatever "effective demand" is supposed to mean), *extra* consumption implies that we are not only destroying value currently being created--and so reducing the surplus that can go to replacing and augmenting the pool of productive resources which originally gave rise to the goods we consume--but that we must be eating into past value as well.

Such past value can only be stored, of course, in one form: capital.

Ergo, consumer credit, unmatched by consumer savings, helps destroy capital and so lessens the ability to provide for future consumption.

In essence, you can't have your Tomorrow and eat it.

This means we must look askance at the joy that has greeted the advent of zero-interest auto loans and question the deeper implications of yet another wave of mortgage refinancing to be triggered by secularly low interest rates on both sides of the Atlantic.

Adding in this element of consumer finance tends to exacerbate the standard business cycle phenomenon, whereby the extension of too much nonsaved credit to producers artificially lowers the rate of interest, making marginal projects appear profitable while confusing those producers into thinking that this lower rate signals that there is sufficient slack in the system for them to be able to complete their undertakings in line with their entrepreneurial estimates.

This latter tends to misallocate capital by distorting both the time and price structure of production, and the more credit involved, the greater the likely scale of errors. Indeed, if individuals are not only not saving more, but actually borrowing themselves, for the purposes of ready gratification, they are making the miscalculation both more likely and more costly.

So, we have a situation where one sector is consuming capital and the other sector is probably misusing what little there is left.

Look at U.S. GDP. Net capital accumulation has undergone a 30-percent plunge in five quarters, the second steepest fall since WWII.

The financial craziness in the wildcat 1980s took this net capital accumulation to its nadir at the depths of the 1991 slump, to its lowest peacetime proportion of GDP since the Great Depression. The recovery back to median values (gerrymandered by statistical redefinition as it may have been), came thirteen long years after it first dropped below them.

Alas, we are already back in the downwave after what we were told was a miracle, but which seems to have been little more than a mean reversion. We can only guess how much damage has been done to the patient's constitution by the libertine lifestyle he enjoyed while his disease was in remission during the Bubble.

Depressions unfold over years, even decades, much like global conflicts. Those of us wedded to the ticker tape and twenty-four-hour rolling news would do well to recall that once in a while, in the effort to make sure that the minutiae of daily tactics do not blind us to the broad sweep of grand strategy.

Eventually, all this discoordination ends in calamity. End products cannot be sold at a price to cover the costs of input and rent: those inputs themselves, being competed for more fiercely than was reckoned, cost more to begin with. Businesses stumble. They strive to shed costs by reining in expenditure and investment and laying off workers.

The structure of production not only shortens as capital goods and raw materials industries scale back in favor of firms providing consumer goods and services, causing the flow of corporate revenues to fall, but, if the problem is big enough and the rigidities are too insurmountable, overall production shrinks, and with it income as well.

Two things must be noted. Capital has been consumed and misused. Everyone would surely be forced to concur that the sooner we cease the first and the quicker we attempt to correct the second, the better it will be for all of us.

Instead, what do we find? Interest rates are slashed, reserves are injected by the central bank, and the mindless chant--"The economy depends on the consumer, the economy depends on the consumer"--is repeated over and over again, as if a farm thrives on the crows pecking at the corn, or as if a boat can be saved from foundering by washing it over the levee on a flood surge.

Every extra dollar borrowed by a consumer now puts us all a dollar further from recovery, the debtor a dollar closer to default, and his bank a dollar closer to a bigger loan loss provision than it would have had to face by foreclosing while there was still something to be salvaged.

Every extra million dollars borrowed by a producer now puts us a million dollars further from recovery, as the company gets a million dollars with which to freeze up suboptimally used capital, to engage in a price war, to hoard labor and so to drag down its leaner, but perhaps less creditworthy, competitor. This also takes its bank, or bondholder, a million dollars closer to losses not only there, but elsewhere in their stable of industrial borrowers, weakened by the lingering death of our lame duck.

All this would be bad enough, but we have government in the game. Even without the war itself, we have U.S. duties on lumber and tariffs on steel, we have farm aid and airline cash, we have increased welfare payments and, in the UK and Australia, public-sector recruitment drives. We have workweek restrictions in the likes of France and proposals to increase the minimum wage in several countries.

Even without the war, we are doing everything wrong that the Hoover-Roosevelt-McDonald governments and the Strong-Norman bankers did in the 1930s, after their long decade of easy money and paper prosperity imploded under the weight of too much debt and too great a strain on real capital resources. Frustrating the market mechanism can cause it to seize completely. Rarely can a complex watch be forced to a different rhythm without irreparable damage to its delicate mainspring and levers.

All traders know the injunctions, "Cut your losses" and "Never add money to a losing trade," and the traders themselves know that the surest way to swap places with the Wall Street shoeshine boy is to fight against the market's natural dynamic of searching for a clearing price.

Might it not be possible for the policymaking elite to take such incontestable rules of thumb from financial markets and transplant them to their doings in the wider world?

Sadly--if their obsession with price-fixing and manipulation in oil futures and gold bullion, in forex and short-term interest rates, in stock indexes and now long Treasury bonds, is any guide--they cannot.

Apres lui le deluge, we might say.

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The Case for Old Ideas

by Joseph Sobran

Most people who clamor for "new ideas" have never given old ideas a chance. They assume that the old ideas have already been tried and found wanting – by whom, they aren't exactly sure – so they dismiss them as "ancient," "outmoded," or "medieval." Such labels are supposed to settle, or preclude, argument.

Thus we are told, on all sides, that the Taliban are "medieval." Only a fool could take this for a reason to oppose the Taliban. It assumes that all medieval things were the same thing; that medieval Islam and medieval Christianity were more or less identical. This would have come as a surprise to the Muslims and Christians of the Middle Ages, who thought they had serious disagreements.

For that matter, medieval Christianity boiled with controversy. Any first-year student of medieval philosophy learns that very quickly. The difference between medieval and modern men is that medieval men debated over which doctrines were true. They never assumed that the new was necessarily superior to the old, or vice versa.

During the Renaissance, there were lively literary debates over whether the ancients were superior to the moderns. Was Shakespeare as great as Ovid? Was Ben Jonson as great as Aristophanes? The debaters on both sides argued from merit, not age. They believed there were permanent criteria for deciding such questions. They would have thought it absurd to take for granted the superiority of any period, including their own.

Our own age is so silly, so uncritical, that it ignores the most elementary distinctions of truth and logic. It exalts the recent and fashionable and assumes that everything old has been superseded like the Model T. A modern university is less the custodian of a heritage than a cauldron of fads – liberalism, feminism, multiculturalism, and so forth. Whatever isn't "progressive" must be "reactionary" and therefore ineligible for tolerance. Its pet fads, as every campus conservative soon discovers, are not open to debate.

Yet the New Ideas of the twentieth century are showing their age. Until recently, at least, and maybe even now, many college professors have insisted on treating Marxism as a New Idea, though every state that has adopted it as a governing philosophy has produced only terror and misery. Other New Ideas, such as those of John Maynard Keynes, have lost their luster and survive only as bad habits survive.

One of the distinctive traits of the modern mind is its insuperable prejudice against the past. The very word "modern" has become a term of praise. The Old is Bad, the New is Good. We mustn’t listen to the Old; it has nothing to teach us. So the modern man, living in fear of being "behind the times," prefers any new intellectual fad to actually reading the ancient Aristotle or the medieval Aquinas.

C.S. Lewis used to urge his students at Oxford and Cambridge to read all the old books they could – not because the old authors were always right, but because they at least made different errors from those of modern thinkers. By studying ancient and medieval writers, Lewis knew, the student could achieve a certain detachment from the pressures of the present; he could see his own environment, the modern world, with fresh eyes.

That mental detachment is one of the greatest blessings an education can bestow. Without it, we are doomed to be manipulated by all the worst forces of the modern world. We live in an age of politics and its handmaiden, state propaganda. We can’t isolate ourselves from these things, which relentlessly seek to control the masses of people and to reduce all of us to passive mass-men. In defense of our own humanity, we desperately need to breed the internal resource of the independent mind. This is the task of a lifetime, not just a four-year curriculum.

Orwell’s *Nineteen Eighty-Four* remains the great parable of the modern society in which the individual becomes a mere product of the state. That individual is so thoroughly conditioned by state propaganda that he accepts even its self-contradictions without question and feels only the emotions it demands at a given moment.

The book’s lesson is that when your mind is a vacuum, the state will fill it. With what? With New Ideas, of course.

Joe Sobran is a nationally syndicated columnist. He also edits SOBRAN'S, a monthly newsletter of his essays and columns.

The Limits of Mathematics

by William L. Anderson

The college football national championship is decided--in large part--by computer programming, not on the field. While the format of major college football’s method of deciding the national champion has been debated for eons (polls or playoffs?), the current method of choosing a champion suffers from the same fate as modern economic methodology, which is the failed but still ongoing attempt to explain human action through mathematical formulas.

Anyone who has taken intermediate or graduate economics or has read any of the best-known economics academic journals knows that mathematics dominates the profession and has been used extensively for many years. This methodology is employed by placing economic "variables" into a formal mathematical "model" that one either "tests" statistically or solves using calculus. The ultimate resolution is an "equilibrium solution," and it is especially good when one can arrive at an "efficient" end point.

(I recall being at a presentation of an academic paper when the economist making the presentation declared, "Economists are happiest when price equals marginal cost." Thus, we see the tried-and-true formula for ensuring happy economists. I do not know if economists are "sad" if price does not equal marginal cost.)

Austrian economists have long known that what much of the economics profession calls "doing economics" is an exercise in silliness. What is worse, many economists actually believe that unless a mathematically perfect "equilibrium solution" is *not* reached in real life, then a horrible failure is occurring that can only be rectified by tapping into the powers of the state. If this contention were true, then *all* economic exchanges would end in failure, since it is impossible to quantify human action. Thus, the only way we could be sure that an "equilibrium solution" was being reached would be for the state to oversee the entire process, something the ancients once called socialism.

This idea, of course, is preposterous. First, and most important, human action is not mathematically quantifiable. Humans do not act according to mathematical formulas, and it seems silly to use a complicated equation to describe something like an individual choosing to buy either a Coke or a hamburger. Second, such an idea assumes that those who work for government are omniscient--except when they are making exchanges as private citizens. (At that point, the government employees need *other* government employees to tell them what to do.)

All this brings me to the Bowl Championship Series formula, which is made up of the Associated Press Poll (voted by sportswriters), the Coaches Poll (voted by the NCAA Division I-A football coaches), the win-loss records of teams, the "strength of schedule" that each team plays, and a gaggle of "computer polls." Individuals who feed data about each team into preset formulas in their computers create these polls, which are very influential in determining which teams will be the top two that will play for the national championship in early January.

As one who follows college football, I often find the results of computer polls quite bizarre. For example, one poll last October had North Carolina ranked in the top ten--despite the fact that UNC had lost its first three games. Teams will be ranked high one week, beat their opponents handily, and then find themselves in a free-fall when the new polls come out.

That this sort of nonsense would decide national collegiate football championships leaves one dumbfounded. However, after reading journals written by the "best minds" in the economics profession, it does not surprise me that college presidents and athletic directors have permitted themselves to be hoodwinked.

As in economics, the BCS formula assumes that we can quantify the actions of athletes, giving a cardinal value to the "quality" of their performances. For example, if the University of Miami Hurricanes, a perennial BCS contender, beat their opponent by 35 points, they receive more quality marks than they would for a 30-point win, since the computer polls heavily emphasize margin of victory.

Such an emphasis on margin of victory fails to deal with the realities of collegiate athletes. In an early November poll, the University of Tennessee was ranked fourth in the BCS poll. However, the team fell three places when it defeated its cross-state rival, the University of Memphis, by 21 points--a no-no, since Memphis had only a 4-4 record at the time. What the computer polls failed to absorb was that Tennessee led 42-7 and had reserves in the game when Memphis struck for three meaningless touchdowns in the fourth quarter that had no outcome in determining who would win.

(Being a Tennessee graduate, I suppose that I should be happy now that the BCS formula has--for the time being--penciled in the Volunteers as the nation's number two team, which means that if Tennessee beats Lousiana State University on December 8, it will play Miami for the national championship. That the BCS computer polls have favored my favorite team does not change the fact that this is an absurd system.)

Furthermore, the computer polls fail to measure the fact that at the Division I level, most teams have good athletes. The best teams have the best athletes, which means they can perform at high levels consistently. "Inferior" athletes, while still blessed with an abundance of talent, are able to achieve at high levels on occasion, but cannot be consistent over several weeks. That is why one occasionally sees "upsets" when an "underdog" defeats a heavily favored rival. In other words, emotions also play a large part in determining outcomes of games--something computers cannot measure.

One especially sees this phenomenon when "traditional" rivals play each other. On many occasions, the favorite will not only lose to a rival, but be routed, as was the case in the Auburn-Alabama game, in which the favored Auburn University Tigers fell 31-7 to a University of Alabama team trying simply to salvage a lackluster season. (On that same day, an "underdog" University of Southern California team routed its favored rival, UCLA, while a few hundred miles up the coast, heavily favored Stanford barely squeaked by its winless rival, Cal-Berkeley.) Mathematical formulas upon which computer polls depend cannot predict something like this, nor can they even explain such a phenomenon.

Computer polls are not the only system of choice used to determine who will play for the national championship. As mentioned earlier, sportswriters and coaches also rank teams. Their methodology is much closer to a legitimate reflection of human action, as in both cases, the participants engage in *ordinal rankings* rather than *cardinal* measurement, as is done with computer polls. Another way to say it is that the voters have no way of knowing in any standard measurement how much better the University of Miami's football team is than, say, the University of Florida. All they can do is to list Miami ahead of Florida and assume that the Hurricanes would beat the Gators under most circumstances.

Athletics, like economics, is an endeavor of human action. While we can see scores and statistics, there is no true way to quantify how good or bad a team may be. Indeed, if the computer polls with their mathematical formulas were so accurate and useful, then one would hardly see the need for a championship game after all. Just let the mathematicians pick the winner and save coaches, players and fans the trouble of having to play the game. Perhaps they can trust the whole thing to the group of elite mathematical economists.

William Anderson, an adjunct scholar of the Mises Institute, teaches economics at Frostburg State University.

Subject: Engineering humor.

The following concerns a question in a physics degree exam at the University of Copenhagen:

"Describe how to determine the height of a skyscraper with a barometer."

One student replied: "You tie a long piece of string to the neck of the barometer, then lower the barometer from the roof of the skyscraper to the ground. The length of the string plus the length of the barometer will equal the height of the building." This highly original answer so incensed the examiner that the student was failed immediately.

The student appealed on the grounds that his answer was indisputably correct, and the university appointed an independent arbiter to decide the case. The arbiter judged that the answer was indeed correct, but did not display any noticeable knowledge of physics. To resolve the problem it was decided to call the student in and allow him six minutes in which to provide a verbal answer which showed at least a minimal familiarity with the basic principles of physics.

For five minutes the student sat in silence, forehead creased in thought. The arbiter reminded him that time was running out, to which the student replied that he had several extremely relevant answers, but couldn't make up his mind which to use. On being advised to hurry up the student replied as follows:
"Firstly, you could take the barometer up to the roof of the skyscraper, drop it over the edge, and measure the time it takes to reach the ground. The height of the building can then be worked out from the formula H=0.5g x t squared. But bad luck on the barometer.

Or if the sun is shining you could measure the height of the barometer, then set it on end and measure the length of its shadow. Then you measure the length of the skyscraper's shadow, and thereafter it is a simple matter of proportional arithmetic to work out the height of the skyscraper.

But if you wanted to be highly scientific about it, you could tie a short piece of string to the barometer and swing it like a pendulum, first at ground level and then on the roof of the skyscraper. The height is worked out by the difference in the gravitational restoring force T = 2 x pi x square root(L/g).

Or if the skyscraper has an outside emergency staircase, it would be easier to walk up it and mark off the height of the skyscraper in barometer lengths, then add them up.

If you merely wanted to be boring and orthodox about it, of course, you could use the barometer to measure the air pressure on the roof of the skyscraper and on the ground, and convert the difference in millibars into feet to give the height of the building.

But since we are constantly being exhorted to exercise independence of mind and apply scientific methods, undoubtedly the best way would be to knock on the janitor's door and say to him 'If you would like a nice new barometer, I will give you this one if you tell me the height of this skyscraper'."

The student was Niels Bohr, the only Dane to win the Nobel prize for Physics.

Source: Peter Bradford

The Case for Counterfeiting

by William L. Anderson

In the government's never-ending quest to end the recession for which it is responsible, we have heard many references to consumer spending being partly responsible for not making things worse. However, it seems that consumers have been less than "patriotic," as stores report somewhat lackluster sales for the Christmas shopping season, which actually makes sense, given that individuals who have either lost their jobs or fear for their own future are not likely to go on spending sprees.

For the past several months, these pages have been demonstrating just how woeful mainstream economic theory has been at describing the causes--and cures--for the business cycle. As we hear economists take sides with politicians arguing over what will best "stimulate" the present moribund economy, it becomes obvious that the situation is even worse than ever. In fact, if we are to take the current pronouncements from economists from the most elite citadels of higher education in this country, the only logical conclusion we can draw from them is that the best way for this recession to end is for government to unleash the counterfeiters.

It is currently illegal for individuals privately to print or coin money, which is an exclusive privilege given to the state. However, the government is bound by the current rules of monetary creation, which is limited to the Federal Reserve having the ability to create new bank reserves through its open market operations. (The Fed also lends money through its discount window and sets the reserve requirements for banks, although the open market operations are by far the most powerful money creation tool.)

Even though Alan Greenspan and the Fed have been feverishly pushing down the Fed's key interest rate, the wave of business investment that would allow the money multiplier effect to take place during a boom has not occurred during this latest bust. This is hardly surprising, given the economic uncertainty that businesses are currently facing.

All of this presents a real problem to those who claim that a new wave of consumer spending will end this recession. Since new money enters the economy through the banking system, the only way we see cash infusions is through increased bank lending. The present economic climate, however, is not conducive to banks lending, which poses a real problem for those who believe the only way to recovery is for consumers to spend as though helicopters were dropping vast sums of money across the country.

Since the government's rules for money creation are not working, it seems the only plan of action that today's Keynesian economists should accept is for government to make counterfeiting legal. Lest anyone think this is silly, imagine the "stimulus" benefits that counterfeiting would produce.

Counterfeiters, whether they work in cramped basements or other workplaces, print money and then instantly spend it. Invariably, people recognize that it is counterfeit, and then the U.S. Secret Service moves in to find who originally printed and distributed the stuff.

There are good reasons why creating counterfeit money is illegal. As Ludwig von Mises pointed out, money is the only commodity that does not confer a social benefit when its supply increases. For example, if someone were to give me a bagful of freshly printed $100 bills, my own purchasing power would increase by the amount of the money in the bag. However, the infusion of new money would also lessen the marginal value of money already in circulation, the beginnings of a new round of inflation, albeit quite small. Having been the first recipient of the new money, I do not feel the effects of the inflation, however.

As long as the counterfeiter is not detected, he enjoys the same outcome as the one I have described. The money provides benefits to the counterfeiter, but only at the expense of other people, as a small portion of their wealth has been transferred away from them and given to the individual who printed the new money in the first place.

The law recognizes this point, which is why counterfeiting is illegal in the first place. However, if one is to take the spend, spend, spend exhortations from the government seriously, as a gaggle of economists are telling us, then it would seem only logical that the only way to quickly inject new spending into the economy is either through private counterfeiting, or if the government does it on its own.

In other words, the government could do like governments of Bolivia, Chile (under the Marxist Salvador Allende), and Argentina, and pay its employees directly with cash from the printing press. Moreover, the authorities could encourage all of us to print new bills in the color copiers, and then accept them in stores with no questions asked.

This kind of plan, I can say with assurance, would quickly inject new money into the economy, and that would mean a spending spree that would dwarf anything we have already seen. In other words, it would provide a "stimulus" that any politician--along with economists like George Akerlof, Paul Krugman, and Joseph Stiglitz--would hail as an economic savior.

Of course, such a move also would quickly bring hyperinflation, just as similar actions by authorities did so in the aforementioned countries. However, since many economists--such as Paul Samuelson, recipient of the 1970 Nobel Prize in economics--either have downplayed inflation or claimed it confers social and overall economic benefits, perhaps they would be willing to sign onto this newly proposed "stimulus" plan. Granted, this plan is a joke, but it is no less a joke than what much of the economics profession has been recommending for the past several months.

William Anderson, an adjunct scholar of the Mises Institute, teaches economics at Frostburg State University.

The Life of Carlo Ponzi

by Adam Young

As the legend goes, the scheme that would make Carlo Ponzi a household name occurred to Carlo when he was a young man. Carlo would sit on his front steps in Boston and watch his neighbors return home from a day's work. It was during one of these daydreaming sessions that his innovation struck. Predictably enough, the first victim of what would become known as the Ponzi Scheme was Carlo's friend Tony. Carlo made an intriguing offer: if Tony lent him $20, Carlo would return $30 in ninety days. "I'll meet you right here and pay you 50 percent on your money."

If only Tony hadn't taken Carlo up on his offer. But he did. And the next day, so did Carlo's friend Guiseppe. So, ninety days later, true to his word, Carlo met with Tony and presented him with his $30. Perhaps like most of us, Tony let his worst half get the better of him and told Carlo, "What the hell, keep it and give me another 50 percent interest in ninety days." And the Ponzi Scheme was born. Guiseppe, the second-generation sucker, subsidized Tony, the first.

Before young Carlo Ponzi pioneered in financial chicanery, he had already lead an interesting--and criminal, to anyone who should have bothered to check--life. Immigrating from Italy at the age of 17, Carlo soon found an alternative to dishwashing and waiting on tables: he would assist his fellow Italian immigrants in sending money back to the home country. But when it was discovered that Carlo was pocketing a generous portion of the funds, he was sentenced to three years in prison.

Perhaps illustrating the observation that government incarceration simply educates more criminals, instead of learning a lesson from his imprisonment, Carlo, once released, began plying his entrepreneurial skills smuggling Italian immigrants into the U.S. from Canada. Nabbed again, Carlo was off to prison for another three years. Setting his mind on going straight, Carlo then moved to Boston and found a job as a $16-a-week clerk. Soon thereafter he met and married Rose Guecco, seeing her as someone willing to take a two-time loser, and Rose had faith that her Carlo would one day rise to the $25-a-week pay bracket.

Now around this time, the "war to end all wars" was coming to an end in Europe, and the boom of the Roaring Twenties was just beginning. Wages were rising and malinvestment was charging ahead, driving an emerging speculative investing craze. And Carlo knew he didn't like working for a living; watching his neighbors trudge home day after day from work as he sat on his Boston stoop only further convinced him that he needed a scheme to get ahead. He thought and thought on that stoop, and, as we know, Carlo came up with quite a scheme.

With the success he experienced with Tony and Guiseppe, Carlo started Securities Exchange Company at 27 School Street in Boston the day after Christmas 1919. Advertising a 50-percent return in ninety days, money from investors large and small poured in.

With all this money pouring in, Carlo had to figure out a plausible explanation for how he could pay 50-percent interest in ninety days when no place in the world paid that much. But Carlo's ingenuity for scams came through again. He told investors that he had a network of agents in Europe that purchased depreciated European currencies, converting the currencies into international postal coupons, which were then redeemed at face value in the United States in U.S. dollars. Carlo claimed all the high rollers were doing it--the Rockefellers, J.P. Morgan, Jr., everybody. But Saint Carlo instead was sharing the wealth and helping the common man (while helping himself of course). Redistributing their money was more like it.

Every day, tens of thousands of dollars were deposited with Carlo's tellers. Outside the building, crowds lined up, waiting to invest. And every day, Carlo would arrive at work in his chauffeur-driven limousine. The key to the entire scheme continued to work its magic, as the deposit counters were usually a swarm of activity, and the withdrawal counters were practically deserted. As the deposits grew and grew, Carlo even opened branch offices, eventually totaling thirty-five. He also used some of the deposits to purchase two actual businesses, Hanover Trust Co. and J.P. Poole Co. Carlo even found time in his busy schedule to buy Rose a mansion.

It wasn't long, however, before Carlo's claims attracted attention from the wrong people. In a few short months, he had transformed himself from a mere clerk to a veritable financial wizard, he and Rose were swaddled in luxury, and anyone who wanted to cash in immediately received their deposit with interest--no questions asked. Carlo's success invited scrutiny. The U.S. Postal authorities advised the federal government that Carlo's given explanation for how the Securities Exchange Company conducted its "investments" couldn't possibly work.

But since the federal government operates on its own concept of time, it wasn't until months later that the feds conducted an official audit of Carlo's operation. And as news of the audit hit the street, the whiff of insecurity began to work its magic, creating a run on the Securities Exchange Company. But it seemed as though Carlo had an inexhaustible supply of cash: all of the investors who that lined up to withdraw their deposit each received their cash plus 50 percent.

And as the audit progressed, the auditors were stumped. The company kept meticulous records of all deposits and withdrawals. No one was being cheated, and no law had been broken. The only thing that they couldn't find was how the company made its fantastic profits. When asked, Carlo indignantly replied that that was a company secret.

The feds responded to this by placing a restraining order on the company, prohibiting it from accepting any further deposits while the investigation was proceeding. Carlo, glimpsing impending doom, hired the well-respected William McMaster to handle public relations until the investigation blew over. This move didn't turn out so well for our friend Carlo. Shortly after being hired, McMaster issued a statement to the press that the Securities Exchange Company had never--not even once--conducted a single foreign financial transaction.

Again, investors created a run on Carlo's company, and again, Carlo appeared to weather the storm, even serving coffee and donuts to depositors as they waited. But eventually the toll of the investigation and revelations took their course, and more and more investors showed up to withdraw their money, until eventually the money ran out. On August 9, 1920, Carlo's bank issued a statement that it could no longer honor checks from the Securities Exchange Company. Two days later, Carlo's criminal record was released to the public.

Panic now gripped those investors who held back, and Carlo feared for his life. He asked for and received police protection. And one by one, his assets were seized. First to go were Rose's mansion and their three luxury cars. Then Hanover Trust and J.P. Poole. As the investigation progressed, investigators discovered that Carlo at his height had 40,000 investors, and the total take was nearly $15 million--and this was back when hotdogs cost a nickel.

On October 21, 1920, Carlo, now penniless, was sentenced to five years imprisonment for embezzlement. Released in 1924 and faced with further charges, he was again imprisoned, this time for nine years.

Out again in 1934, Carlo was deported to Italy, where, sizing up a sucker if he ever saw one, he quickly offered his services to Mussolini. Once hired, Carlo dispelled any confidence in his claim to be any sort of financial wizard and was soon fired by Il Duce. Carlo next turned up with an Italian airline and was sent to Rio de Janeiro. Carlo had no sooner than arrived to take up his new duties when the airline abruptly folded.

Stranded in Rio, Carlo Ponzi would end his days penniless, nearly blind, and partially paralyzed. He died in a charity ward in Brazil in 1949.

As we all know, however, this would not be the end of the Ponzi Scheme. Carlo Ponzi's spirit, if not his ghost, would live on under the tutelage of, not the marketplace, but the state. Though Ponzi's great reputation as a financial wizard was tarnished and tattered, other men would come along to claim his mantle. Instead of falling into obscurity, the criminal scheme of a poor boy from Italy would be institutionalized as a system of deceit and privilege and thereby expanded into a racket the size and scope of which --with ingenious and elaborate rationalizations, not to mention decades-long duration--Carlo Ponzi surely couldn't have dared imagine.

The Social Security Act was ostensibly a fund to pay pensions, but it doubled as a hidden tax to fund a Treasury reserve fund for the purpose of cloaking tax increases and higher government spending. "Contributors" to Social Security do not receive the returns from the money they paid into the "fund" in the past. Rather, just as in a Ponzi Scheme, they are paid from the funds of current contributors (taxpayers), and these taxpayers will in turn be paid from the taxes paid by the generation that follows them. In other words, its purpose is the redistribution of income, not investment toward the production of new wealth.

Needless to say, the temptation to consume today what is due tomorrow is irresistible to politicians. Tax money is always spent. The essential deceits that lay behind Social Security are of course even more evident today. The so-called budget surpluses of the Clinton '90s exist solely as an accounting shell game in which surplus revenues generated from Social Security taxes are deposited with the U.S. Treasury and included as part of the general tax-revenue fund. In return, IOU's are then issued by the Treasury to the wildly misnamed Social Security Trust Fund. The IOU's are then not counted as liabilities in the federal debt and are not counted in the official U.S. budget.

A keen observer of FDR was John T. Flynn, who described Social Security's racketeering design.

> The plan was to make the payroll tax big enough to pay the benefits, plus enough more to create a so-called reserve of $47,000,000,000 in 40 years. It was given the fraudulent name of Old-Age Reserve Fund. The Security Board would collect the taxes each year, use a small part of it to pay the pensions and put the rest in the "Fund." That is, it would lend it to the Treasury and the Treasury would then spend it for any purpose it had in mind. At the end of 40 years, Roosevelt was told, this money could be used to pay off the national debt.

This was sixty-five years ago, and of course the deceit of Social Security allowed the accumulation of ever more debt, rather than the retirement of it, and the creation on an enormous "off-budget" slush fund.

The fact that Carlo's scheme lasted less than a year--and was exposed by his own PR man--while the government's Ponzi scheme has lasted through good times and bad, for more than half a century, only suggests that while Carlo Ponzi's brilliance lay in the creation of ingenious scams, perhaps he should have plied his talents as a politician, where he could've fleeced his victims legally.

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