July 2004 BANK NOTES

INTRODUCING - David M. Stearns, LTC/US Army (ret), as Chief Operating Officer of INFINITE BANKING CONCEPTS. He joins us after 26 years with the Army as an Artillery Officer and later as an Army Aviator.

He is married to Kimberly Nash Stearns and they are the parents of four of my grandchildren, Lauren Stearns Jensen, Leigh Stearns, Robert Stearns and Taylor Stearns.

David will be assuming distribution of book orders for Becoming Your Own Banker. No changes in procedure for ordering books will be necessary. He is the creator of the Powerpoint Presentation that I use in live seminars and will soon be working on some new variations of it. Look for the announcement on www.infinitebanking.org in coming weeks. Dave can be reached at david.stearns@charter.net. Phone him at 205-978-7567.

We are honored to have him aboard!

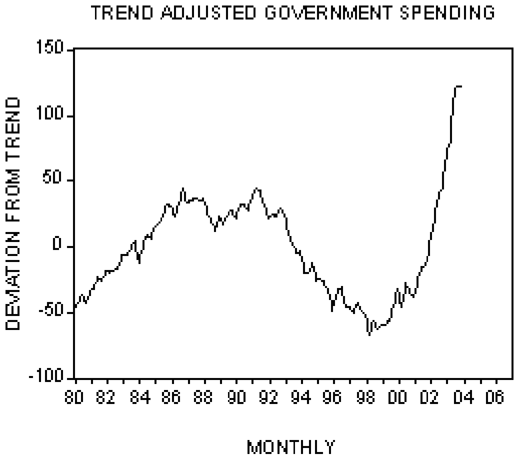
Snowdrifts of Debt

by Christopher Mayer

The following article is from the April issue of The Free Market, available to members of the Mises Institute.

Debt is an institution in American government, long established and widespread. A cursory glance at debt statistics will quickly show that there has been a lull in the truth about debt, namely, that it cannot grow indefinitely at the rate at which it has been growing—at least not without a serious revaluation of the dollar, something we are already in the midst of seeing.

We know that the US government is the world's largest debtor with deficits feeding debts that pile on in increasingly larger numbers of numbing proportions. The current federal debt outstanding according to the Bureau of Public Debt stands at $6.9 trillion. [1] It was only in 1981 that the legal debt ceiling was $1 trillion. Then again, expecting debt ceilings to curb debt growth is sort of like trusting the fox with the henhouse.



Though it may be surprising to some, particularly those who believed in the supposed fiscal responsibility of the Clinton years, the public debt has risen without interruption since 1956. Incredibly, the $6.9 billion is conservative because if you add in all the off-balance sheet contingencies and guarantees (implicit and otherwise) you probably triple that figure, at least. This also excludes debts incurred by states, municipalities, etc.

Given the large amount of debt outstanding, it is easy to see that creditors are not likely to win any votes in deciding the future monetary policy of the country. Democratic hopefuls are not likely to rail against the effects of inflationary monetary policy in transferring wealth from creditors to debtors. The Bush Administration is not likely to lead a charge for hard money. No, the more likely path will be to perform some sort of con, like legalized counterfeiting—the modern form of the old art of repudiation.

Statecraft learned the art of repudiation a long time ago, at least at early as Solon, the lawgiver of Athens in 7^{th-}6th centuries BC. Thomas Cahill, in his latest book, *Sailing the Wine-Dark Sea*, called Solon "a sort of Athenian Franklin D. Roosevelt." Indeed, both men led famous swindles on the citizens they governed.

It was Solon, according to the historian Plutarch, who lightened the debt burdens of Athenians by "raising the value of their money; for he made a pound, which before had passed for seventy-three drachmas, go for a hundred; so that, though the number of pieces in the payment was equal, the value was less; which proved a considerable benefit to those that were to discharge debts."

In fine Athenian fashion, and very much like our own modern age, treachery was given a pretty name. This was "softening the badness of a thing," as Plutarch called it, where harlots were mistresses and tributes were customs and a jail became a chamber. The Greeks called Solon's act a *seisacthea*, meaning a relief or a disencumberance. Plutarch cites a poem, credited to Solon where he "takes honor to himself that" "The mortgage-stones that covered her [Athens], by me, removed,—the land that was a slave is free . . ."

Solon forced a revaluation, in effect transferring wealth from creditors to debtors. The mortgage stones would make their marks again and again through the ages. Solon's financial alchemy would not be unique.

It was probably not Cahill's intent, but his linking Solon with FDR is most apropos in this respect, because FDR too pursued a similar policy of debt relief in the 1930s—by breaking contracts.

Faced with paying for the extravagance of the New Deal and also grappling with a severe crisis, Roosevelt chose the tried old hand of repudiation. (Note, we call it the "New Deal" when in fact it was basically "Old World Socialism," more "softening the badness of a thing.")

In 1933, the incoming Roosevelt administration assaulted the monetary order of the country, forcing it off the old gold standard, confiscating the gold of American citizens and putting it under the ownership of the Federal Reserve. They placed an embargo on the export of gold and devalued the dollar to $35 an ounce, where once an ounce of gold could be had for about $20.

The Roosevelt administration also brazenly stepped in and repudiated private and public contracts that required payment in gold. In other words, it had been customary for contracts to have gold clauses requiring payment in gold and thereby protecting the creditor. Roosevelt said that this was no longer legal and that if you had signed a contract stating that you promised to pay in gold, you no longer had to do so. A promise was not a promise anymore.

The anti-New Dealers, a spirited group still clinging to simple morals and personal liberty, fought the Roosevelt administration. History would later show they were part of a rearguard action. For the most part, they are written out of mainstream histories of the period. The victors do write history, after all.

This group was dealt a severe blow when the Supreme Court upheld the government's repudiation of private and public contracts to pay in gold, by the slimmest of majorities, 5–4. The court reasoned that these contracts interfered with the government's ability to control the supply of money—which they did and which was precisely the point of such clauses.

These actions were largely consistent with the goals of the New Deal. As economist Benjamin M. Anderson noted in his financial history, "the New Deal tax policy from the beginning has been more concerned with the redistribution of wealth than with raising revenue." All of these schemes simply robbed creditors and handed the gains to debtors.

With all the debt still saddled on the US, it is an irony that the rising stock market and happy GDP statistics have given most Americans the hope that things have turned and the boom is on. GDP is growing, we are told, among other things. The economy, many believe, has turned the proverbial corner and is now gingerly making its way forward once again. But what sort of prosperity is this?

Commenting in the 1930s, Albert Jay Nock noted the "the regular pre-election effort to start a boom in the stock market" and observed how optimistic Americans remained despite the large amount of debt and deficits. He wrote that "American have a strange notion that the ordinary laws of economics do not apply to them. So doubtless they will think they are prosperous if the boom starts, and that deficits and indebtedness are merely signs of how prosperous they are."

This false sense of prosperity has deceived many and has produced a fertile field for the institution of debt to grow—fertilized as it is by a fiat currency, a central bank, fractional reserve banking and other monetary interventions.

The laws of economics likewise never cease. These debts must be dealt with. They cannot grow indefinitely at their current rates. History tells us that these debts are not usually repaid as agreed. In a world of fiat currency, debt relief takes a subtler path than the overt aggression of a Roosevelt. Inflation (an expansion of the money supply) or legalized counterfeiting, is the modern spin on an old idea. The forces that led to these earlier swindles are converging now on a debt-laden America. From Solon, to Roosevelt, to Nixon's closing of the gold window, the tradition of fraud is evident. In today's world, all you need is a printing press. My guess is that Bernanke's printing press will be busy.

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THE DAILY MOTIVATOR Wednesday, April 14, 2004

Pay the price ++++++++++++++++++

The sooner you pay the price, the lower that price will be, and the more you'll receive in return. The more willingly and gratefully you pay the price, the more quickly you'll realize the benefits.

When you attempt to gain value without paying the price, you'll end up paying even more. Each effort you make to get something for nothing will just put you that much farther behind.

What you hoard, hide and hold back from life will only serve to hold you back. Instead, be generous with your time, your spirit, your love and your efforts, and life will be full indeed.

It is truly a privilege to pay the price. For that is how value gets created. It is truly a blessing to make the effort. For that is where fulfillment begins.

Step forward with enthusiasm and pay the price. For you know how much value it will surely bring.

Zero Gravity

When NASA first started sending up astronauts, they quickly discovered that ball-point pens would not work in zero gravity.

To combat this problem NASA scientists spent a decade and $12 million developing a pen that writes in zero gravity, upside down, on almost any surface including glass and at temperatures from below freezing to over 300 degrees C.

The Russians used a pencil.

Enjoy paying your taxes – they're due again.

*** Modern degenerate capitalism is as fraudulent as a senate primary. Wall Street sells shares pretending they will make investors rich. Ordinary people gamble money in stocks and pretend they are investing. Public companies sell shares pretending they are using it to make investors money. This from colleague Porter Stansberry:

"Most of the profits made in technology stocks during the 1990s ended up in the hands of as few as 100 corporate insiders, instead of the millions of investors who actually owned these firms.

"Take Cisco for example - one of the largest, most profitable and best-known technology companies of the 1990s. Between 1995 and the end of 2003, Cisco reported to have earned $3.3 billion in profits. However, as only the footnotes to its financial statements revealed, the firms spent over a billion dollars in stock options on its employees. Cisco spent $1.5 billion on employee stock options during this seven-year period - 53.4% of all the money it made.

"In simple terms: Cisco spent more than half of its total profits on extra compensation to its employees. The vast majority of these stock options went to a handful of senior executives, like CEO John Chambers. Chambers regularly received total pay packages in excess of $100 million per year, with most of his pay coming in the form of stock options that depended on the stock price staying high. Thus, it's no surprise that as late as December of 2000, Chambers told the financial media that he didn't see any deterioration in Cisco's business, despite the collapse of the "Dot.com" businesses, which had been large buyers of Cisco's Internet routers. In 2001, only a year later, Cisco would record a loss of nearly $3 billion dollars - about as much money as the company had made during the previous two years combined.

"Even for the very best and most profitable company in the Internet sector then, the Internet boom was only a mirage, at best. On closer inspection the boom looks like an enormous fraud. And these are the results from the best company in the sector. The other companies fared much, much worse: the vast majority never made a profit at all, and in fact lost billions when you included stock options expenses.

"And yet, no one on Wall Street or in the mutual fund community or in the press said anything about these abuses until years after the fact and only when they were forced to by congressional investigation or shareholder lawsuit."

Taken from the April 23, 2004 Daily Reckoning column by Bill Bonner

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GM, for example, once the nation's largest company, is now "more bank than carmaker," says the Wall Street Journal.

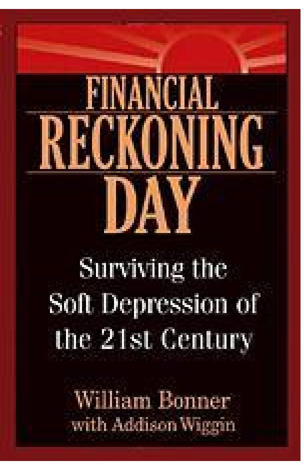
General Motors has seen a big increase in its finance division. Making and selling cars is hard work, but financing cars, houses and insurance contracts is a piece of cake. GMAC now contributes 2 out of every 3 dollars of GM's profits... with more than half of the financing profits completely unrelated to the auto business.

*** Poor Robert Cromer. If we could somehow put an adjective in the future tense, we would do so. For Mr. Cromer is not poor today... at least, not insofar as he is aware.

Mr. Cromer is featured in a report on CNN. He is a 'tycoon in the making,' says the story. The man earns only $50,000 per year. But he's leveraged real estate into $3.2 million worth of assets. Against this, he has $2 million in debt. So far, the math is pretty simple; he's ahead $1.2 million.

But all his properties bring him only $3,100 in net monthly rental revenue. This amount is not nearly enough to cover the interest on his loans.

Thus is America's real estate bubble illustrated and its future foretold. As long as prices rise faster than the gap in operating costs, Mr. Cromer remains on the make towards tycoondom. When prices level out... or fall... he becomes another dumb schmuck who over-extended himself.



---- Bill Bonner, May 26 quoting the FINANCIAL TIMES.

Our Financial Reckoning

by Doug French

"The eternal sunshine of the spotless mind" is where all bad things are forgotten. In this sanitized world all things will work out fine. For investors this means that just keep putting more money in mutual funds and you'll be rich.

Bill Bonner told his audience at the Las Vegas Money Show last month that he had just titled his speech "The eternal sunshine of the spotless mind" five minutes before going on, borrowing from the Jim Carey movie of the same title currently in theaters.

The Money Show and FreedomFest that followed, allowed investors and freedom lovers the opportunity to see and hear one of the finest financial wordsmiths in person, not just once, but three times.

Unlike the mainstream financial media on CNBC, FNN, Fox and Bloomberg, Bonner hasn't forgotten history. He remembers that only 25 years ago, the stock market's price/earnings ratio and dividend yield were the same at six. He remembers that at the same time, the Dow Jones Industrial Average and the price of gold per ounce were the same near 850. Government bonds yielded 15 percent in those days. The budget hasn't been balanced since Nixon was in office, and the trade balance has been negative since the early 1980's. The investment balance was positive in 1986 but now stands at a minus three trillion. Yet government bond yields today are in the four to five percent range. "Is it three times safer to lend money to the government now?" Bonner asked the crowd rhetorically.

Investors have forgotten the old adage "buy low and sell high." Stocks and real estate are both expensively priced yet people are still buying, expecting a happy ending. But, we don't always get happy endings in real life, Bonner reminded the crowd. Investors expect that Alan Greenspan can control things and ensure eternal sunshine – that central bankers know more than they used to. But as Bonner eloquently pointed out: "In science and technology knowledge is cumulative, but in central banking, finance and romance knowledge is cyclical."

People used to have a deep distrust of paper money. This was learned over many generations. Governments will always print too much money, to the point of making it worthless. But, who today distrusts paper money, despite the fact that Greenspan has created more money than any central banker in history?

The common wisdom used to be that a person shouldn't go into debt. This view was based upon centuries of experience. Bad things can happen, thus money should be saved just in case, not borrowed. But, now people follow the government's lead, the government will never get out of debt and neither will the people. "There is no virtue to being debt free anymore," Bonner told the audience, "there used to be mortgage burning parties, because paying off a mortgage meant you were free – a cause for celebration."

People have also forgotten what it means to save. The savings rate has dropped from ten percent to nearly zero. Instead of working hard, saving and prudence, the new investor class, what Bonner affectionately calls the "lumpeninvestoriat" believes that they can get something for nothing. Instead of distrusting Wall Street like their ancestors wisely did, the lumpeninvestoriat believes that they can "get rich in their sleep." These people believe that by merely buying stock they are investors. They know nothing about these stocks other than they want the prices to go up. Yet polls say that the uninformed and ignorant, with no historical experience, expect 10 to 20 percent annual returns. These people, says Bonner, have become Wall Street's patsies.

Bonner believes that the U.S. will have a "slow motion slump" or as he describes in his best-selling book, *Financial Reckoning Day*, a soft depression. Near the end of *Financial Reckoning Day* provides what he believes to be the trade of the decade. As Bonner writes: "Investors do not need to make many decisions. Studies have shown that allocation decisions are what make or lose the most money." Bonner goes on to write that if an investor simply bought gold in 1970 and sold it in 1980, he would have made a 1,708 percent profit. In 1980, Japanese stocks should have been bought, and sold in 1990 for a smooth 549 percent profit. Of course in 1990, the trade was to buy U.S. stocks and sell them in 2000 for a 426 percent profit.

In 2000 the trade of the decade was to buy gold and sell the Dow, a trade that is looking good so far. "Should he stay with the trade?" Bonner asks, "We cannot say, but it's best not to look until 2010."

Bonner told the FreedomFest audience at Bally's Hotel that gold is a good thing to hold "when the Vigoro hits the Mixmaster."

Anyone who reads Bill Bonner, or has read *Financial Reckoning Day* knows he imparts financial wisdom with an uncommon way with words.

"Bonner sometimes makes me feel like a house painter staring at a Rembrandt," writes John Mauldin, author of *Bull's Eye Investing*. "He is that good."

The investors, who were lucky enough to hear Mr. Bonner in Las Vegas, left with; minds not so spotless and, much more wisdom than they came with.

June 2, 2004

Doug French [send him mail] is executive vice president of a Nevada bank and a policy fellow of the Nevada Policy Research Institute.

Governments have never "created jobs". They have created positions of dependency and a culture of excuses funded by legalised theft. Every government attempt at sponsoring "innovation" or the advancement of the "small- to medium-sized enterprise" has resulted in the proliferation of quasi-governmental bodies staffed by those who wish to harness the power of the state, to further their own ends at the expense of others. "Government" is synonymous with "control"; whereas markets are as spontaneous as they are unpredictable. They also create independence and interdependence of the individuals involved.

----- Zbigniew Piekarski