The Infinite Banking Concept™
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Nelson Nash, Founder

BankNotes archives are located on our website: http://www.infinitebanking.org/banknotes.htm

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Infinite Banking Concepts Store Shipping Notice
From 20-28 December; we will not be shipping IBC products. We will still accept on-line orders and will resume shipping on Monday, 29 December.

Nelson Nash's live seminars for the next two months (The seminar sponsor or contact person is listed with phone and e-mail address in case you want to attend)

Saturday, 8 November, Toledo, OH, Lupe Hinojosa 419-534-2000, lupehinojosa@sbcglobal.net

Thursday-Friday, 13-14 November, Little Rock, AR, Becky Rice, 501-221-7400, becky@rebeccarice.net

Saturday, 15 November, Helena, AR, Joe Hart, 901-326-6500, becomeyourownbank@gmail.com

Friday-Saturday, 21-22 November, Beaver, PA, Tom Young, 866-316-5071, leahn@quixnet.net

Thursday-Friday, 4-5 December, Austin, TX, Tom Eckols 512-656-4981; tom-eckols@glic.com or Kirk Attwood 512-563-9827, kirk@uniqueconomics.com

Thursday-Friday, 11-12 December, Boerne, TX, Janet Sims, 830-331-9805 janet_sims@financialprocessgroup.com

Here is a listing of Nelson's newly added Book Recommendations

THE MYSTERY OF BANKING
- by Murray N. Rothbard

The Trillion Dollar Meltdown - by Charles R. Morris

I.O.U.S.A - One Nation Under Stress, In Debt
- by Addison Wiggin and Kate Incontrera

Nelson's Favorite Quotes of the Month

"Wall Street people learn nothing and forget everything." - Benjamin Graham (1894-1976), influential investment thinker

The right to tax "in its nature acknowledges no limits." - Oliver Wendell Holmes

"There is no worse tyranny than to force a man to pay for what he does not want merely because you think it would be good for him." - Robert Heinlein
"The powers of taxation are broad, but the distinction between taxation and confiscation must still be observed." - George Sutherland

Proverbs 22:7
"The rich rule over the poor. (The Golden Rule), and the borrower is servant to the lender." (The slavery of the commercial banking system)

The following articles are Nelson's favorite finds from the last month's reading

Financial Crisis and Recession

Daily Article by Jesus Huerta de Soto | Posted on 10/6/2008

The severe financial crisis and resulting worldwide economic recession we have been forecasting for years are finally unleashing their fury. In fact, the reckless policy of artificial credit expansion that central banks (led by the American Federal Reserve) have permitted and orchestrated over the last fifteen years could not have ended in any other way.

The expansionary cycle that has now come to a close was set in motion when the American economy emerged from its last recession in 1992 and the Federal Reserve embarked on a major artificial expansion of credit and investment, an expansion unbacked by a parallel increase in voluntary household saving. For many years, the money supply in the form of banknotes and deposits (M3) has grown at an average rate of over ten percent per year (which means that every six or seven years the total volume of money circulating in the world has doubled). The media of exchange originating from this severe fiduciary inflation have been placed on the market by the banking system as newly created loans granted at extremely low (and even negative in real terms) interest rates. The above fueled a speculative bubble in the shape of a substantial rise in the prices of capital goods, real-estate assets, and the securities that represent them and are exchanged on the stock market, where indexes soared.

Curiously, as in the "roaring" years prior to the Great Depression of 1929, the shock of monetary growth has not significantly influenced the prices of the subset of goods and services at the final-consumer level of the production structure (approximately only one third of all goods). The decade just past, like the 1920s, has seen a remarkable increase in productivity as a result of the introduction on a massive scale of new technologies and significant entrepreneurial innovations which, were it not for the "money and credit binge," would have given rise to a healthy and sustained reduction in the unit price of the goods and services all citizens consume. Moreover, the full incorporation of the economies of China and India into the globalized market has gradually raised the real productivity of consumer goods and services even further. The absence of a healthy "deflation" in the prices of consumer goods in a period of such considerable growth in productivity as that of recent years provides the main evidence that the monetary shock has seriously disturbed the economic process.

Economic theory teaches us that, unfortunately, artificial credit expansion and the (fiduciary) inflation of media of exchange offer no shortcut to stable and sustained economic development, no way of avoiding the necessary sacrifice and discipline behind all voluntary saving. (In fact, particularly in the United States, voluntary saving has not only failed to increase, but in some years has even fallen to a negative rate.)

Indeed, the artificial expansion of credit and money is never more than a short-term solution, and often not even that. In fact, today there is no doubt about the recessionary consequence that the monetary shock always has in the long run: newly created loans (of money citizens have not first saved) immediately provide entrepreneurs with purchasing power they use in overly ambitious investment projects (in recent years, especially in the building sector and real-estate development). In other words, entrepreneurs act as if citizens had increased their saving, when they have not actually done so.

Widespread discoordination in the economic system results: the financial bubble ("irrational exuberance") exerts a harmful effect on the real economy, and sooner or later the process reverses in the form of an economic recession, which marks the beginning of the painful and necessary readjustment. This readjustment invariably requires the reconversion of the entire real productive structure, which inflation has distorted.

The specific triggers of the end of the euphoric monetary "binge" and the beginning of the recessionary "hangover" are many, and they can vary from one cycle to another. In the current circumstances, the most obvious triggers have been the rise in the price of raw materials, particularly oil, the subprime mortgage crisis in the United States, and finally, the failure of important banking institutions when it became clear in the market that the value of their debts exceeded that of their assets (mortgage loans granted).

At present, numerous self-interested voices are demanding further reductions in interest rates and new injections of money, which permit those who desire it to complete their investment projects without suffering losses.

Nevertheless, this "flight into the future" would only temporarily postpone problems at the cost of making them far more serious later. The crisis has hit because the profits of capital-goods companies (especially in the building sector and in real-estate development) have disappeared due to the entrepreneurial errors provoked by cheap credit, and because the prices of consumer goods have begun to rise faster than those of capital goods.

At this point, an inevitable, painful readjustment begins, and in addition to a drop in production and an increase in unemployment, we are now seeing a very harmful rise in the prices of consumer goods (stagflation).

The most rigorous economic analysis and the coolest, most balanced interpretation of recent economic and financial events lead inexorably to the conclusion that central banks (which are in fact monetary central-planning agencies) cannot possibly succeed in finding the most advantageous monetary policy at every moment. This is exactly what became clear in the case of the failed attempts to plan the former Soviet economy from above.

To put it another way, the theorem of the economic impossibility of socialism, which the Austrian economists Ludwig von Mises and Friedrich A. Hayek discovered, is fully applicable to central banks in general, and to the Federal Reserve and (at one time) Alan Greenspan and (currently) Ben Bernanke in particular. According to this theorem, it is impossible to organize society, in terms of economics, based on coercive commands issued by a planning agency, since such a body can never obtain the information it needs to infuse its commands with a coordinating nature. Indeed, nothing is more dangerous than to indulge in the "fatal conceit" — to use Hayek's useful expression — of believing oneself omniscient or at least wise and powerful enough to be able to keep the most suitable monetary policy fine-tuned at all times. Hence, rather than soften the most violent ups and downs of the economic cycle, the Federal Reserve and, to a lesser extent, the European Central Bank, have most likely been their main architects and the culprits in their worsening.

Therefore, the dilemma facing Ben Bernanke and his Federal Reserve Board, as well as the other central banks (beginning with the European Central Bank), is not at all comfortable. For years they have shirked their fiduciary responsibility, and now they find themselves in a blind alley. They can either allow the recessionary process to begin now, and with it the healthy and painful readjustment, or they can procrastinate with a "hair of the dog" cure. With the latter, the chances of even more severe stagflation in the not-too-distant future increase exponentially. (This was precisely the error committed following the stock market crash of 1987, an error that led to the inflation at the end of the 1980s and concluded with the sharp recession of 1990-1992.)

Furthermore, the reintroduction of a cheap-credit policy at this stage could only hinder the necessary liquidation of unprofitable investments and company reconversion. It could even wind up prolonging the recession indefinitely, as occurred in the Japanese economy, which, after all possible interventions were tried, ceased to respond to any stimulus involving credit expansion or Keynesian methods.

It is in this context of "financial schizophrenia" that we must interpret the latest "shots in the dark" fired by the monetary authorities (who have two totally contradictory responsibilities: both to control inflation and to inject all the liquidity necessary into the financial system to prevent its collapse). Thus, one day the Fed rescues AIG, Bear Stearns, Fannie Mae, and Freddie Mac, and the next it allows Lehman Brothers to fail, under the amply justified pretext of "teaching a lesson" and refusing to fuel moral hazard. Finally, in light of the way events were unfolding, the US government announced a $700 billion plan to purchase illiquid (i.e., worthless) assets from the banking system. If the plan is financed by taxes (and not more inflation), it will mean a heavy tax burden on households, precisely when they are least able to bear it.

In comparison, the economies of the European Union are in a somewhat less poor state (if we do not consider the expansionary effect of the policy of deliberately depreciating the dollar, and the relatively greater European rigidities, particularly in the labor market, which tend to make recessions in Europe longer and more painful). The expansionary policy of the European Central Bank, though not free of grave errors, has been somewhat less irresponsible than that of the Federal Reserve. Furthermore, meeting the requirements for admission to the euro currency bloc (convergence) involved a healthful and significant rehabilitation of the chief European economies. Only a few countries on the periphery, like Ireland and especially Spain, engaged in considerable credit expansion from the time they initiated their processes of convergence.

The case of Spain is paradigmatic. The Spanish economy underwent an economic boom that was due, in part, to real causes (liberalizing structural reforms which originated with José María Aznar's administration). Nevertheless, the boom was also largely fueled by an artificial expansion of money and credit, which grew at a rate nearly three times the corresponding rates in France and Germany.

Spanish economic agents essentially interpreted the decrease in interest rates which resulted from the convergence process in the easy-money terms traditional in Spain: a greater availability of easy money and mass requests for loans from Spanish banks (mainly to finance real-estate speculation), loans which these banks have granted by creating the money *ex nihilo* while European central bankers looked on unperturbed. When faced with the rise in prices, the European Central Bank has remained faithful to its mandate and has decided not to lower interest rates despite the difficulties of those members of the Monetary Union which, like Spain, are now discovering that much of their investment in real estate was in error and are heading for a lengthy and painful reorganization of their real economy.

Under these circumstances, the most appropriate policy would be to liberalize the economy at all levels (especially in the labor market) to permit the rapid reallocation of productive factors (particularly labor) to profitable sectors. Likewise, it is essential to reduce public spending and taxes, in order to increase the available income of heavily indebted economic agents who need to repay their loans as soon as possible.

Economic agents in general and companies in particular can only rehabilitate their finances by cutting costs (especially labor costs) and paying off loans. Essential to this aim are a very flexible labor market and a much more austere public sector. These factors are fundamental if the market is to reveal as quickly as possible the real value of the investment goods produced in error and thus lay the foundation for a healthy, sustained economic recovery in a future that, for the good of all, we hope is not too distant.

Jesús Huerta de Soto, professor of economics at Rey Juan Carlos University in Madrid, is Spain's leading Austrian economist. As an author, translator, publisher, and teacher, he also ranks among the world's most active ambassadors for classical liberalism. He is the author of *Money, Bank Credit, and Economic Cycles*. Comment on the blog.

Stop Worrying about the Election

Daily Article by Isaac M. Morehouse | Posted on 10/3/2008

As the presidential election nears, I hear more people voicing their fear over the prospect of the *other* candidate winning. People from both major parties express genuine trepidation at the thought of a world without their candidate as commander in chief. Both sides believe we will lose our freedom if the wrong party wins.

Perhaps surprisingly, I think there's a lesson to be learned in all this from Hollywood.

The 1994 movie *Shawshank Redemption* is the fictional story of Andy Dufresne, a prisoner at the infamous Shawshank Penitentiary. One of Dufresne's fellow inmates, Brooks Hatlen, has spent nearly his entire life in Shawshank, and has settled in to the routine and become the prison's bookkeeper. After a lifetime in prison, Hatlen is finally freed as an old man. Once on the outside, Hatlen finds life beyond bars too complicated and confusing, too new, too risky. He cannot cope with this newfound freedom after a life of bondage and, tragically, he commits suicide.

Brooks Hatlen forgot how to be free. He became accustomed to bondage and let the yearning for freedom die within him over his long stay in the penitentiary.

Andy Dufresne, on the other hand, never let his freedom die. While locked in Shawshank, despite oppressive and often gruesome circumstances, Dufresne's spirit was unshakable. He constantly cultivated the seeds of freedom in the least free setting imaginable. When Dufresne escaped, unlike Hatlen, he embraced life in the free air and pursued his dreams.

The difference between these two men had nothing to do with their physical circumstances; both were in prison. Yet Andy Dufresne, even while imprisoned, was still free. No bars or guards or hardships could take away his freedom. Hatlen had lost his freedom, and even in the absence of physical oppression, he was still a prisoner. An individual who wants to be free can be, no matter what the world brings. An individual who has let the spirit of freedom die will never be free, no matter what the world brings.

The idea that freedom is simply a state of mind may sound trifling, especially when considering some of the unimaginable horrors faced by unfree peoples across the globe. But even political freedom cannot be had without a people who keep the spirit of freedom alive within themselves; and if they do, political freedom is often not far behind.

"Political freedom cannot be had without a people who keep the spirit of freedom alive within themselves."

Lawrence Reed, president of the Foundation for Economic Education, tells an inspiring story of an underground band of freedom fighters in formerly communist Poland. Their spirit of freedom was kept alive despite a tyrannical Communist regime. Indeed, they not only held onto their belief in freedom, but they spread it, often at great risk to their lives. When the Communist authorities finally announced that they were relinquishing their power the reason they gave was that the Polish people had become "ungovernable." No regulations, no prisons, no secret police, no propaganda, no physical or political suppression could take away the people's freedom. They were free, whether the government liked it or not.

Keep this in mind as America's government changes with each election. Remember this when you see government expanding its reach into your life. Rather than looking to political leaders to protect or expand our freedom we should cultivate the seeds of freedom in our own spirits, and inspire others to do the same. Nothing government can do can take away our freedom; and if we are a people who are truly free, the government will have to follow.

Isaac M. Morehouse is the director of campus leadership for the Mackinac Center for Public Policy. He lives in Vicksburg, Michigan, and blogs at MichiganSFE.org and ThePrometheusInstitute.org. Comment on the blog.

The Standard of Living Bubble (And Why It's About to Go Pop!)

Posted by Karen De Coster on October 22, 2008

Our representatives in Washington, alongside the easy-credit Federal Reserve and its Wise Leader, "Helicopter Ben," have essentially subsidized a rash of misguided investments and profligate spending-sprees by consumers who've bought into the illusion of endless prosperity. Everyone knows about the Housing Bubble. Well, get ready for the even bigger Standard of Living Bubble, whose bursting is now upon us.

Because real wages have not been rising, the growth in consumer spending could only have been financed through borrowed money. Debt, which allows consumers to have cash on hand that hasn't been earned or saved, has given *Boobis Americanus* the ability to live beyond his means, at least for a little while. And a great many have taken up this "pay later" lifestyle, accumulating a great many houses, cars, and other things.

A favored form of debt for funding extraneous purchases has been the home equity line. During the housing bubble, homes became virtual ATMs. Whereas home equity was once used for purposes of improving the home for the long-term, it became a source of quick cash for reckless buyers eager to turn their home into an instant showplace. First there's the actual house, then comes the Martha Stewartization, followed by the furniture, the landscaping, the lighting, the additions, the appliances, and on and on.

The government's mantra since the days of the New Deal has been the "right to own a home." In the modern version of "the American Dream," a starter home is treated as a humiliation, as everyone has the right to own a great, big home in an esteemed neighborhood, and preferably one of new construction and with all the bells and whistles. The term "being house poor" used to be a negative connotation. During the bubble it became a bragging right.

Even worse, home equity has been funding the purchase of everyday consumer durables, especially those items that tend to be discretionary in nature. Home equity has funded the kind of purchases that *should* be funded from earned, saved monies. A perpetually (and rising) line of credit induces consumers to "bite" at the availability of easy money at low rates, and thus they take the cash and spend their way to a perceived prosperity.

For the average person, "things" have become identical to wealth. They equate the accumulation of "stuff" with "being loaded." Accordingly, everybody has been well-heeled in these bubble times. The availability of debt at bargain rates and the glory of immediate accumulation due to debt quickly erodes the values and common sense of people.

Some of the more pompous—and truly false—signs of prosperity can be seen within the automobile bubble. With the onset of the have-pulse-will-loan credit market, auto consumers have been bypassing common sense for a bloated sense of reality. Everyone deserves the biggest, the best, and the most custom vehicle they could dream up—and one's income shouldn't mater. People with mediocre wages purchased Escalades, Lexus SUVs, and other luxury-type vehicles, with many of these cars costing far more than the purchasers earned in a year. Additionally, the roads are now littered with brand new cars that have expensive aftermarket wheel sets, tires, boom-boom stereo systems, and gaudy-but-costly custom trim. In fact, stock, solid-transportation vehicles are no longer sufficient for the spoiled masses enjoying an overdrawn standard of living. Debt has funded the majority of these extravagant purchases, yet we call it "prosperity."

Auto consumers have not been compelled to pay market rates for their cars because they lease perpetually at discounted rates or get ultra-incentives from automakers desperate to keep the assembly lines moving with the UAW gang breathing down their necks. Leases have been a financial disaster for the auto companies, but the wild impulses of buyers, fueled by below-market interest rates, propped up that racket long enough so that Lexus and Mercedes dealers were popping up in wholly middle-class neighborhoods. Both Chrysler and General Motors have discontinued or cut back their unworkable lease programs. Additionally, buyers have not been required to put substantial down payments on new vehicle purchases. Cars have come on the cheap, with pushed-down interest rates, no down payments, and terms extending the payment plan to six or seven years.

Accordingly, with the housing market imploding and the entire banking system resting on wilted stilts, Americans are left with a devalued dollar, escalating costs of living, a massive federal bailout of Wall Street's derelict financial management, and the nationalization of some of the country's largest banks. The standard-of-living squeeze has made its way to Main Street, slowing down the spend-o-rama of the middle class, as retail sales numbers are starting to hit the skids.

The bursting of this bubble and its unwinding could result in some unpleasant withdrawal symptoms. People—especially younger folks—who have been reared on the splendiferous way of life that debt offers, will be resistant to changes which will require lower time preferences (longer term views) and more careful planning in terms of shuffling around priorities. As Main Street endures a stifling credit crunch; inflation; increasing interest rates; scores of home foreclosures; cut-off of home equity lines; a job market squeeze; soaring federal, state, and local taxes; and the inability to manipulate low-interest credit cards to cover shoddy financial decisions, there will be restlessness amongst the masses, especially from those people who have never had to live within their bona fide financial means.

Some of this anxiety has been witnessed already, as lenders who are taking back homes in foreclosure have been dealt some vile vengeance from bitter homeowners who take to vandalizing their homes before they vacate the premises. This problem is said to be present in almost half of all foreclosure cases nationwide. The response from lenders has been to take the most economical path and actually *pay* the vacating ex-homeowner to refrain from leaving behind a trail of destruction as leaves his property.

The worst part of the contraction will clobber Main Street with a shortage of the consumer credit that became an addiction for so many individuals. The price we pay will be oodles of socialistic legislation aimed at containing the fallout in order to further sustain the fictitious prosperity a bit longer. Central planners act on the notion that the unhappy reality of hitting bottom can be delayed indefinitely. Thus the cycle of fiction will be lengthened, turning a headache into a migraine, and perhaps even worse.

The central planners in Washington, along with the Federal Reserve, planned and fueled an unsustainable standard of living across the country, from the neighborhoods of McMansions to the ghettos. The impending bust will affect us all, regardless of whether or not we partook in any of those easy-credit orgies sponsored by our leaders in Washington.