BANKNOTES - NELSON NASH'S MONTHLY NEWSLETTER February 2009

The Infinite Banking Concept™

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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)

Thursday-Friday, February 5-6, Little Rock, AR, Becky Rice, 501-221-7400, becky@rebeccarice.net

Monday-Tuesday, 9-10 February, Birmingham, AL, David Stearns, 205-276-2977, david.stearns@charter.net

Wednesday-Thursday, 11-12 February, Birmingham, AL, Infinite Banking Concepts Think Tank Symposium, David Stearns, 205-276-2977, david.stearns@charter.net

Friday-Saturday, 20-21 February, Seattle, WA, Rich Keal, 888-888-6208, rich@genwealth.net

Thursday-Friday, 26-27 February, Dallas, TX, Joe Kane, 512-345-2734, jkane@pegplanning.com

Thursday-Friday March 5-6, *Salem, OR*, Tom McFie, 866-502-2777, Michele@Life-Benefits.com

Tuesday-Wednesday, March 10-11, Overland Park, KS, Levi Clock, 816-225-3715, lclock@kc.rr.com

Thursday-Friday, March 12-13, Austin, TX, Kirk Attwood at 512-563-9827, kirk@uniqueconomics.com

Thursday-Friday, March 19-20, Boerne, TX, Janet Sims, 830-331-9805, janet_sims@financialprocessgroup.com or Larry Holder 512-799-1464

Saturday, March 28, Las Vegas, NV Joe Pantozzi, 702-430-4400, joe@aofswest.com

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

In Restraint of Trade by Butler Shaffer

Against Intellectual Monopoly by Michele Boldrin & David K. Levine

Nelson's Favorite Quotes of the Month

"We have a tax code that favors those with the best accountants." - Shane Keats

"One information-reporting requirement added in 1986 required people to include on their tax returns Social Security numbers of all dependents over age two. This caused seven million dependents to disappear from the tax rolls." - Michael J. Graetz

"[T]axation, in reality, is life. If you know the position a person takes on taxes, you can tell their whole philosophy. The tax code, once you get to know it, embodies all the essence of life: greed, politics, power, goodness, charity." - Sheldon S. Cohen

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

Madoff as Metaphor

Daily Article by Llewellyn H. Rockwell, Jr. | Posted on 12/22/2008

The mystery of Bernard Madoff will be storied a hundred years from now. As history's biggest financial criminal, he took a cheap ripoff that you can use at home—the Ponzi scheme—and turned it into a global empire worth some $50 billion.

One ingredient was financial intelligence. Madoff had buckets of it. Early in his career, he was the real deal, an actual innovator. He combined this with an amazing lack of conscience, for his scam was rooted most fundamentally in lying and stealing. The difference between him and all who came before was his grand scale, the grandest scale imaginable.

There is a saying in the world of Austrian economics about the business cycle. The puzzle is not to explain business failures. Those are part of the normal course of life, and the sign of a healthy economy. The puzzle is to explain the "cluster of errors" that appears at the beginning of a recession. How could so many have been so wrong about so much at the same time? The business cycle is a system-wide failure, not merely the mistaken judgment of a few.

So it is with Modoff's scheme. The mystery isn't how one person was able to fool a few. The scheme in which yesterday's "investors" are paid off with the money of today's victims is known in all places and probably all times—and it always goes belly up to the originator's complete disgrace. It is a classic example of how moral laws are self-enforcing in the world of economics.

The critical difference this time is that Madoff ran his scheme during an economic boom, a time when people's normal sense of incredulity is put on the shelf. This is part of the grave cultural distortion introduced by funny money. Money is the most widely demanded good in society, and the Fed is making new quantities of it not as a reflection of new real wealth, but purely as an administrative decree. There is a sense in which funny money literally drives everyone crazy, leading to what is sometimes called the "madness of crowds." Guido Hulsmann explains it all in his remarkably timely and revealing new book: The Ethics of Money Production. With artificial stimulation from the credit machine, multitudes are willing to believe in something that cannot possibly be true. In Madoff's case, it was that he could, even in falling markets, earn 15-20% a year without risk.

Why not? Most everyone believed in some version of the myth. We believed that house prices would go up and up despite the reality that houses are physical things that deteriorate from the instant they are finished, just like cars or computers or anything else.

Why did we believe this about houses? Again, you have to look to the fraudulent money system to see why.

And we believed that we could all become millionaires by putting our money in the stocks of companies that weren't actually earning money or paying dividends, companies whose wealth was entirely based on infusions of cash from the stock market which in turn were based on the belief that others would buy the stocks and so on. In other words, we believed that something out of nothing was possible, and anyone who didn't believe it was a chump. It's exactly what people believed during the other great inflations of history.

What's more, we believed that buying these stocks constituted not consumption, but savings for the future. In fact, people routinely attacked official savings data on grounds that they did not include what people were "saving" in terms of their stock market accounts. In a similar way, people were measuring our national wealth not in terms of accumulated capital, but rather through consumption data, as if granite kitchen counters in bigger houses were a measure of wealth instead of the opposite: the depletion of wealth.

The left is big on attacking the salaries of investment bankers, and they were indeed outlandish. But these too represented not a unique problem, but more evidence of inflationary finance. In a bubble economy, the money chases what is most fashionable, and financial services qualified. So the salaries were market. What was wildly distorted was the market itself.

Now let's talk about government finance during these years. The market tried to correct itself from 1999-2001, but the government wouldn't tolerate it. Instead, it used every sign of downturn as an excuse to keep the illusion going, creating billions and billions in new dollars. The Fed drove interest rates lower and lower despite the non-existence of savings available to back them up.

(Low interest rates in a sound money system are a reflection of accumulated capital and deferred consumption. When you see the Fed pushing them down during a boom, it is creating a dangerous mirage.)

Did anyone stop and wonder where the government was getting all this money to pump up the system?

Yes, the Austrian economists warned us. The pages of Mises.org and LewRockwell.com were filled with alarms. But it was something people wanted to ignore. We are talking about human nature: the desire to believe in things that do not exist. The government was happy to fuel this sense because it gave the Fed, its connected industries, and the state more power and more money in the short term.

Madoff's scheme played into the belief that wealth was not something to work for, but something to scheme for. It could be generated by playing your cards right, hooking into the right networks, and finding the right "investments." The people with whom he dealt had, it turns out, some internal sense that there was something a little bit shady about the whole operation. But they dispensed with this sense when the fat checks arrived, and concluded that whatever was making this perpetual motion machine operate, it did work.

But listen: the government right now is using the same tactic to convince you that it is saving you from the recession. The whole scheme partakes of the same sense of denying reality that characterized Madoff's scheme. And I'm not just talking about Social Security, which is almost an exact replica of the Ponzi version, except that at least Charles Ponzi didn't force people to give him money. I'm speaking of something broader. The entire financial system that is propped up by the Treasury and the Fed is based on the same idea: that something out of nothing is possible.

So they will jail Madoff. Wall Street would flog him if it could. He is disgraced for all of history. But meanwhile, the likes of Bush, Bernanke, Paulson, Obama, and all the rest are still riding high, even though their scheme is far larger and more egregious. Most of us like to believe that we wouldn't have been tricked by Madoff. But are you being tricked by the elites who claim that they can conjure up a trillion dollars to stabilize our economy by clicking a few buttons on a computer screen? Most people are. Certainly the press seems to have bought it. Many people were outwitted by Madoff. Many more people are today being outwitted by the government and its central bank. And it will all end in disgrace and disaster, only on a far, far grander scale.

Llewellyn H. Rockwell, Jr. is president of the Ludwig von Mises Institute in Auburn, Alabama, editor of LewRockwell.com, and author of *Speaking of Liberty*. Comment on the blog.

Banking Demystified

by Doug French

Those under the delusion that it was an orgy of deregulation and lack of government oversight in financial markets that has led to the current crash and rash of bank failures and bailouts will be overjoyed to learn that the Federal Deposit Insurance Corporation (FDIC) is doubling its operating budget for 2009 to $2.24 billion and will increase its workforce by 30 percent to 6,269.

The pace of bank busts is quickening, with nearly half of this year's 25 failures coming in the current quarter. There were only three failures in 2007 as the real estate boom still had fainting signs of life left in it and there were no failures from June 2004 through February 2007 when the boom was in full swing. This boom was driven by huge increases in the money supply created by the Federal Reserve which led to massive mal-investment in: row after row of single family tract homes that were scooped up by panting speculators who financed their punts with cheap no-money down loans, strip malls and suburban office buildings, skyscrapers and casinos the world around.

To the government regulatory world, the banking system was sound while the boom unfolded, but as Murray Rothbard pointed out in his article "The Myth of Free Banking in Scotland" which is included as an appendix in the new addition of *The Mystery of Banking*, "a dearth of bank failure should rather be treated with suspicion, as witness the drop of bank failures in the United States since the advent of the FDIC."

As Rothbard points out, the banks may be doing fine when there are no failures, but society is getting the worst of it. "Bank failures are a healthy weapon by which the market keeps bank credit expansion in check; an absence of failure might well mean that that check is doing poorly and that inflation of money and credit is all the more rampant," Rothbard wrote. "In any case, a lower rate of bank failure can scarcely be accepted as any sort of evidence for the superiority of a banking system."

With real estate collateral values plunging, credit losses are soaring, decimating the capital ratios of banks all over the world. Large banks that are viewed as "systemically important" such as Citicorp are bailed out. Others are kept alive via capital injections from the government's Troubled Assets Relief Program (TARP). But many of the small fry are (and will be) seized by regulators and liquidated. Thus, of the 1,400 new FDIC positions, two-thirds will be working on the "closed bank" side with the other third working on the "open bank" side, according to FDIC spokesman David Barr.

The folks at the FDIC evidently think 2009 will be a banner year for bank failures. And they should. Thus, roughly 400 of the new hires will be doctors doing check-ups on existing banks, while 1,000 will be working in the morgue doing autopsies and disposing of dead banks.

Mr. Barr points out that most of these new positions will be temporary, but H.L. Mencken reminds us "all bureaucracies will bear close watching, and none more so than that which comes into power in a wave of popular enthusiasm, and with the avowed purpose of saving the country from ruin."

All of this regulating won't make for sound banking. That's impossible with fiat money, fractional reserves and central banking as Rothbard explains. To put banking back on sound footing, the dollar must be defined by weight in gold, the Fed must be liquidated, banks must have gold equal to 100 percent of demand deposits, the U.S. Mint should be abolished, and the FDIC, instead of bulking up, should be abolished, "so that no government guarantee can stand behind bank inflation, or prevent the healthy gale of bank runs assuring that banks remain sound and noninflationary."

Meanwhile, the FDIC Board also announced that the FDIC's Deposit Insurance Fund decreased by $10.6 billion, or 23.5 percent in the third quarter and currently stands at $34.6 billion. That sounds like a lot of money, but it's less than one percent of the $4.3 trillion in deposits that the FDIC is insuring. But FDIC chair Shelia Bair has no fear: "While we will likely continue to see more bank failures, it is important for the American public to know that the FDIC stands ready to meet our sacred commitment to depositors. It is a golden promise that has been kept for 75 years and one that will not be broken."

Did she say "golden" promise? Not hardly. "From a money, centuries ago, based solidly on gold as the currency, and where banks were required to redeem their notes and deposits immediately in specie," Rothbard wrote, "we now have a world of fiat paper moneys cut off from gold and issued by government-privileged Central Banks."

The FDIC's golden promise is no substitute for the real thing.

December 23, 2008

Doug French [send him mail] is executive vice president of the Ludwig von Mises Institute and associate editor for Liberty Watch Magazine. *He received the Murray N. Rothbard Award from the Center for Libertarian Studies. See his tribute to Murray Rothbard.*

"Please note that Eric Englund wrote this article in June of 2005, and very accurately forecast our current situation." Economists of the Austrian school of thought can see the nonsense of our financial debacle very plainly." - Nelson

Houses Are Consumer Durables, Not Investments

by Eric Englund

Over time, under a 100% gold standard, a house would gradually depreciate in value. A house, after all, is nothing more than a durable consumer good – it is a capital good if it is a rental property. However, when living under a fiat-currency regime, perceptions can be radically altered. For example, not only is a house believed to be an appreciating asset, it is considered to be an investment. Additionally, under conditions of rapid money and credit growth (which, for a period of time, leads to artificially low interest rates), people will come to think of themselves as real estate entrepreneurs – wisely "investing" in a house, to live in, with the confidence that a big payday looms ahead upon sale of same house. Presently, with lending standards so low – to keep credit flowing – the housing boom has become an outright speculative bubble in many parts of the U.S. I would argue, in fact, that a hyper-reality has emerged in which real estate is perceived to be a one-way street to wealth. The bust will come, inevitably, and millions of Americans will be wiped out financially – and only the Austrian School of economics provides the correct explanation as to why the housing boom contains the seeds of its own destruction.

As Roger Garrison explains in *The Austrian Theory of the Trade Cycle*, the boom-bust cycle emanates from the Federal Reserve:

The Austrian theory of the business cycle emerges straightforwardly from a simple comparison of savings-induced growth, which is sustainable, with a credit-induced boom, which is not. An increase in saving by individuals and a credit expansion orchestrated by the central bank set into motion market processes whose initial allocational effects on the economy's capital structure are similar. But the ultimate consequences of the two processes stand in stark contrast: Saving gets us genuine growth; credit expansion gets us boom and bust.

We certainly know, today, that Americans are saving little if any money. Thus, America's housing boom has emerged directly as a result of Alan Greenspan's easy-credit policies, not from savings.

For the time being, the real estate party is in full swing. Americans are clamoring to participate in this ride to "Easy Street." People are willing to take on punishing mortgage debt loads, "knowing" that houses will always appreciate in value and that the higher the leverage, the higher the rate of return. Moreover, as a house appreciates, home equity loans can be taken out to purchase *consumer durables* such as high-end kitchen appliances, granite countertops, a hot tub, and even a kit to build a backyard barbecue. Once these consumer durables are "attached" to a house, they magically become investments that add value to, and appreciate with, the house. With Alan Greenspan at the helm of the Federal Reserve, Americans have discovered investment Nirvana. Indeed, the house has been transformed into a perpetual wealth creation machine.

To be sure, a house is a more enjoyable investment to own than a dot.com or a telecom stock. Just imagine, you can throw a Super Bowl party in your investment. You can sip on champagne while relaxing in your hot tub investment. Neighbors can compete as to who throws the best barbecue bash on the block (oh, it was so wise to invest in that bricks-and-mortar backyard barbecue). It is important, naturally, to keep the yard manicured in order to have the best looking investment on the block – which is important, for curb appeal, should one decide to sell for the highest profit possible. Finally, you can even procreate in your housing investment – try that in your stock portfolio. All the while, the hottest topic of conversation in the neighborhood pertains to how everyone's house is increasing in value. Every homeowner is brilliant and, in a sense, has become a real estate entrepreneur.

In the boom phase of the trade cycle, it is not predictable as to where the fiat money and credit will flow. In the late 1990s, we saw "Easy" Alan's money and credit flowing into internet-related companies such as the dot.coms and telecoms. Correspondingly, individual "investors" threw trillions of dollars into the tech-laden NASDAQ with the belief that the internet would lead us into a bold new cyber-world where wealth would be created simply by sharing and transferring information. When this mania ended (as bank credit and venture capital dried up), the NASDAQ bubble burst – in early 2000 – and the once high-flying dot.com and telecom companies came crashing down to earth. It was all an illusion fueled by the Federal Reserve's loose money and credit – with a notable clustering of entrepreneurial and investor error associated with internet-related companies. Hence, in 2000, the economic bust (recession) descended upon the U.S.

Alan Greenspan, of course, would not tolerate a recession. Accordingly, the Federal Reserve went on a money and credit creation binge and eventually brought short-term interest rates down to 1% (in 2003). The Federal Reserve, in total, cut interest rates 13 times between 2001 and 2003. With interest rates so seductively low, Americans went on a borrowing and spending spree which pulled Uncle Sam out of the recession – at least for now.

As Murray Rothbard explains, in *The Austrian Theory of the Trade Cycle*, America's debt-driven "prosperity" is a mirage built upon the opiate of easy credit. Alan Greenspan's multiple interest rate cuts, as Dr. Rothbard conveys, is nothing new in the field of central banking:

… the point is that the credit expansion is *not* one-shot; it proceeds on and on, never giving consumers the chance to reestablish their preferred proportions of consumption and saving, never allowing the rise in costs in the capital goods industries to catch up to the inflationary rise in prices. Like the repeated doping of a horse, the boom is kept on its way and ahead of its inevitable comeuppance, by repeated doses of the stimulant of bank credit.

Sadly, there will be a comeuppance. In this case, a clustering of errors will be exposed on the part of the high-flying housing developers, lenders, and homeowners. Mortgage lenders, eventually, will find that homeowners cannot handle such crushing debt loads, especially as rising interest rates cause defaults on interest-only and adjustable rate mortgage loans. As mortgage payment delinquencies and defaults rise, bankers and other mortgage lenders will begin to see the error of their easy-credit ways. This is where boom turns to bust, as described by Dr. Rothbard:

It is only when bank credit expansion must finally stop, either because the banks are getting into a shaky condition or because the public begins to balk at the continuing inflation, that retribution finally catches up with the boom. As soon as credit expansion stops, then the piper must be paid, and the inevitable readjustments liquidate the unsound over-investments of the boom…

Not to forget the housing developers: at this juncture, they will be caught with too much inventory on hand right when housing prices and demand are on the decline.

Just as night follows day, bust follows boom – as long as central banks exist. The housing bubble is merely another manifestation of the Federal Reserve's reckless manipulation of money and credit. Presently, most Americans believe that houses are a sure-fire investment while adherents of Austrian economics know they are nothing more than consumer durables caught up in a speculative frenzy. When the housing bubble bursts, millions of Americans will find themselves buried alive in debt while living in their financial tombs.

June 8, 2005

Eric Englund [send him mail], who has an MBA from Boise State University, lives in the state of Oregon. He is the publisher of The Hyperinflation Survival Guide *by Dr. Gerald Swanson. You are invited to visit his website.*

Authors: Beware of Copyright

by Jeffrey A. Tucker

When an author signs a publication contract, insofar as it contains strict and traditional copyright notices, he is pretty much signing his life away. It used to be that the publisher would maintain control only so long as the book is in print. Today, with digital printing, this means forever: your lifetime plus 70 years.

During this time, you can't even quote significant portions of your own writing without permission from the publisher, and you could find yourself paying the publisher for the rights. You can't read your own book aloud and sell the results. You certainly can't give a journal a chapter.

You could try to be sneaky and change the text a bit, right? Wrong. They've thought of that. You will own and control new matter but the old matter is still the private possession of The Man.

What if the publisher isn't marketing your book? You can yell and scream but they don't have to answer. In fact, most publishers have a system for dealings with authors. It's called voice mail. Emails go unanswered.

You are done for. You sold your soul and you can't get it back. Not within your lifetime. Your creation, which copyright is designed to protect, is now the possession of someone else. This follows the trajectory as laid out in Michele Boldrin and David Levine's smashing new book *Against Intellectual Monopoly*.

As they explain, this racket began in the 17th century when government instituted the idea of ownership of ideas, precisely so that the government could crush ideas it didn't like. Only approved authors got the stamp of approval. Same with art. But then the authors and creators rose up and demanded their rights in the 18th century, and the copyright idea was transferred from government to private parties, who were then in a position to crush competitors. In the 20th century, this changed again, when the right was transferred from individuals to corporations.

In the digital age that exists simultaneous to the most tyrannical copyright laws ever, this is creating an intolerable situation that amounts to a form of involuntary servitude. Creators write and paint and watch corporate interlopers doom their work to obscurity. The creator hoped to make a dent in the universe but only sees his material land in the recycle bin of history.

Yes, it is done by contract – contract backed by the power of the state. So why do authors put up with it? Mostly because it is a convention, and they haven't known about alternatives. Also, they are bribed by the ego-exploiting promise of royalties that never arrive.

The practical effects can be devastating. There is, for example, a book on Austrian business cycles that was published some years ago, and it is in print from an academic house, but in print only in the most technical sense. It is essentially unaffordable for anyone but a state-funded library with an inelastic demand curve.

The Mises Institute wants to bring it back in paperback and make it affordable. Nope, can't happen. The publisher says that it will do it for us, at a very high price with virtually no discount. They are in their legal rights to do this.

Of course it makes the whole project completely unviable. No deal. The authors are cornered. There is nothing they can do. There is nothing we can do. A great Austrian book, written over the course of ten years, is consigned to the dusty shelves of a handful of libraries, for at least another 70 years.

This is only one case of a hundred that I've seen. It is even worse when the author is dead. The publisher may or may not have handed back the rights to the manuscript. Those rights may or may not have been transferred. They may or may not have been handed on in the will or perhaps they are part of probate.

Yes, a potential new publisher can hunt this down to find out who among 6 billion potential owners actually controls rights to this manuscript. A lawyer is always glad to spend vast amounts of your money doing research. He may or may not come up with an answer you can trust. Meanwhile, you have spent the equivalent of a first print run.

Most potential publishers will say: to heck with it. Again, you have failed to be immortalized by your work. This goes for artists and musical compositions and even recordings of your band or voice. Thanks to federal law since the 1980s, all this material is bound up in a thicket of law, and this thicket will not evaporate for more than one hundred years.

This is what the "intellectual property" of copyright has wrought.

So I say to all authors: please look at your contracts. Don't sign your life away. Publish on the condition of Creative Commons. Claim your rights back as a creator and an author.

How does this work? You have to copyright your work if only to prevent others from claiming copyright and thereby binding all other living persons, including you, from publishing it. Once you claim copyright, add that it is published under the Creative Common License 3.0. This rids your manuscript or song or painting of copyright's provision of doom: the requirement that only one institution can control it.

In other words, it makes your creation part of the free market. It can be posted, recorded, shown, photographed, celebrated by one and all forever. Isn't this why you create in the first place? Isn't this what drove you to write, paint, photograph, sing, or whatever? You want to make a difference. You want credit for your work. This permits it.

Old-fashioned copyright is nothing but a form of modern tyranny in the digital age. It has no future. Bail out of this wicked institution and make sure that your work has a future too.

January 22, 2009

Jeffrey Tucker [send him mail] is editorial vice president of www.Mises.org.

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