BankNotes

July 2010

NELSON NASH'S MONTHLY NEWSLETTER

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Nelson's Favorite Quotes of the Month

Time flies. It's up to you to be the navigator.
- Robert Orben

Learning is not compulsory... neither is survial.
- W. Edwards Deming

Nelson's favorite articles from the last month's reading

The Role of Social Institutions

(Excerpt from book: How Privatized Banking Really Works)

By Robert P. Murphy, Ph.D. | Monday, June 21, 2010

> To understand our civilization, one must appreciate that the extended order resulted not from human design or intention but spontaneously: it arose from unintentionally conforming to certain traditional and largely moral practices...
>
> —Friedrich Hayek

Social institutions are relationships and behavioral practices that allow humans to better cope with the problems of life in this world. At the most general level, institutions can include staples of society such as the family and the moral code, but institutions can also include fairly trivial examples such as the practice of tipping or giving gifts on birthdays.

Institutions provide a framework of continuity and predictability that allows people to more accurately plan their activities. In particular, institutions help us interact with each other by imposing a sense of stability and order onto the initially chaotic jumble of life. We all understand that parents and teachers need to provide a "routine" for young children, but ironically we adults need routines ourselves for modern civilization to be possible. We go through our routines of going to work, buying items from the store, going home to live with our family members (or roommates), and of course we directly communicate with each other with the institution of language—complete with its rules of grammar and definitions that everyone in the community shares.

The Fatal Conceit

One of the scourges of the 20th century was the arrogant belief by many intellectuals that they could overturn the inherited social order and remake society from scratch. In their view, if the existing customs and social practices couldn't be justified on a purely "rationalist" basis, then they were obviously obsolete and should be jettisoned in favor of new, "scientific" principles.

We have put these terms in quotation marks because in reality, it was incredibly irrational to try to revamp society from scratch, and it was very unscientific to try to substitute the time-tested traditions with new practices dreamed up by idealistic revolutionaries. Friedrich Hayek, one of the most celebrated Austrian economists and winner of the 1974 Nobel Prize, termed this hubris the fatal conceit. In his book The Fatal Conceit: The Errors of Socialism, Hayek writes:

[The socialists] assume that, since people had been able to generate some system of rules [in society] coordinating their efforts, they must also be able to design an even better and more gratifying system. But if humankind owes its very existence to one particular rule-guided form of conduct of proven effectiveness, it simply does not have the option of choosing another merely for the sake of the apparent pleasantness of its immediately visible effects. The dispute between the market order and socialism is no less than a matter of survival. To follow socialist morality would destroy much of present humankind and impoverish much of the rest.

The tragic mistake of the socialist reformers of the 20th century was in thinking that they could retain the bounty of free-market capitalism, while correcting its alleged faults such as inequalities in wealth or periods of high unemployment. But by overturning the traditional rules of property rights, the socialists did not create a utopia. Instead they unwittingly paved the way for the most murderous regimes in human history, whether on the "left" (Stalinist Russia and Maoist China) or the "right" (Hitler's Germany, where the Nazi Party was the National Socialist Party).

The Results of Human Action, But Not of Human Design

One of Hayek' major insights was that the fatal conceit of the socialist intellectuals led them to believe that simply because a social institution was created by humans, that it was therefore designed by them and could, in principle, be redesigned as a new and improved institution. Especially before witnessing the horrors of totalitarianism, many "good men" believed that a better world could be created if only the smartest, most humane men put their heads together and crafted a better plan for society. Instead of the anarchic market system, in which goods and services were produced on the basis of profit, the socialists wanted the State to organize all production in the service of people. It was simply the reincarnation of Plato's vision of rule by the philosopher kings.

Besides their naïve trust in those who would seize power in a socialist State, the intellectuals committed a basic mistake in their analysis. As Hayek repeatedly argued, these intellectuals overlooked the capacity of social institutions to tap the dispersed knowledge of the entire community. So rather than relying on a few of the "smartest guys in the room" to design a new society from the top-down, the inherited social institutions effectively solicited input from everyone, both brilliant and dull. The combined knowledge and experience of the entire community was always better than that of any small sample of individuals, even if those individuals were the best and the brightest.

It was understandable that the socialist reformers overlooked this key insight; it took a scholar of Hayek's brilliance to flesh out the point during his long career. Hayek devoted articles and books to the study of spontaneous orders, referring to self-organizing systems that exhibited predictable patterns, even though nobody deliberately set about to create such an orderly pattern. Borrowing a phrase from the Scottish moral philosopher Adam Ferguson, Hayek said that in a social context, spontaneous orders were "the product of human action, but not of human design."

What did Hayek mean by this odd phrase? He was underscoring the crucial fact that some of our most important institutions—including spoken language, our rules of morality, and the market economy itself—are obviously not "natural" creations, but instead are clearly the result of human beings. On the other hand, we can't scour the history books to find out which wise king, or group of scholars, invented the English language, or rules of morality, or the operation of the capitalist system. The earliest economists saw the hand of God behind these orderly outcomes, but both theist and skeptical writers understood that human beings on their own did not design such institutions.

Before tackling the more complex spontaneous order of the modern market economy, let's start with a simple example: a path through a forest. When a newcomer begins a hike in the forest, he will likely take the path of least resistance, meaning he will follow the well-worn trail that others have already created. Now this path or trail is clearly the result of human action; the branches were not removed by beavers, and the foliage on the ground was not eaten away by cows. Even so, we don't need to assume that the first human to stumble into the virgin woods, deliberately set out to create a path to serve subsequent travelers.

On the contrary, it's almost certainly the case that the first person to wander into the forest picked his way through it, looking for the most advantageous route. He obviously would walk around large trees, would avoid prickly bushes, and wouldn't walk into a deep river. But what the pioneer would be doing, quite unwittingly, was make it easier for the next person to follow in his footsteps. Perhaps he would carry a machete and hack away the branches as he stumbled along this maiden voyage; this would make it much easier for the next person to take the same route.

Gradually, over the decades, and especially if hundreds of people had to walk through this particular forest, a "good" route would be discovered. Its excellence would be enhanced every time another person walked along it, for each such passage would stamp down any weeds attempting to grow in the dirt trail, and would snap any small branches that had ventured into the corridor.

This hypothetical path through the forest would thus clearly be the result of human action, and yet not of human design. All of the hikers collectively contributed to its creation, over the course of decades, even though each individual hiker was acting in his own interest and in fact probably had no idea he was assisting all subsequent hikers.

Now it's true, the path might not be "optimal" from the viewpoint of a park ranger who conducts a helicopter survey of the entire forest. The ranger might lament the fact that the path goes a certain way, rather than another. Even so, taking the world as it is, the ranger realizes that it would be too confusing to try to "fix" the path. It would take a lot of manpower (with machetes and axes) to clear the "better" path, and then the ranger would have to set up fences or other obstacles to induce people to stop using the original, convenient path.

Our simple example of a path through a forest is a good metaphor for the Austrians' insights on the institutions of a market economy. We will outline some of the most important ones in the following chapters. But it is important to keep in mind that even though we will discuss the role or "function" of each institution, and how it helps humans deal with the economic problem of scarcity, that even so these institutions were not consciously invented by any human being.

Notes:

(1) Friedrich A. Hayek (ed. W.W. Bartley III), The fatal Conceit: The Errors of Socialism (Chicago: The University of Chicago Press, 1988) p. 6.

(2) Hayek, The Fatal Conceit, P. 7.

THE FREEDOM OF ASSOCIATION

by Llewellyn H. Rockwell, Jr.

It seems incredible that in the last days, a fundamental right of the whole of humanity, the freedom of association, has been denounced by the New York Times and all major opinion sources, even as a national political figure was reluctant to defend his own statements in favor of the idea, and then distanced himself from the notion. Has such a fundamental principle of liberty become unsayable?

Or perhaps it is not so incredible. An overweening government, in an age of despotism such as ours, must deny such a fundamental right simply because it is one of those core issues that speaks to who is in charge: the state or individuals.

We live in anti-liberal times, when individual choice is highly suspect. The driving legislative ethos is toward making all actions required or forbidden, with less and less room for human volition. Simply put, we no longer trust the idea of freedom. We can't even imagine how it would work. What a distance we have travelled from the Age of Reason to our own times.

Referencing the great controversy about the 1964 Civil Rights Act, Karen De Coster put the issue to rest by turning Rachel Maddow's question on its head. She demanded to know whether a white businessman has the right to refuse service to a black man. Karen asked: does a black businessman have the right to refuse service to a Klan member?

I don't think anyone would dispute that right. How a person uses the right to associate (which necessarily means the right not to associate) is a matter of individual choice profoundly influenced by the cultural context. That a person has the right to make these choices on his or her own cannot be denied by anyone who believes in liberty.

The right to exclude is not something incidental. It is core to the functioning of civilization. If I use proprietary software, I can't download it without signing a contractual agreement. If I refuse to sign, the company doesn't have to sell it to me. And why? Because it is their software and they set the terms of use. Period. There is nothing more to say.

If you run a blog that accepts comments, you know how important this right is. You have to be able to exclude spam or ban IP addresses of trolls or otherwise include and exclude based on whether a person's contribution adds value. Every venue on the internet that calls forth public participation knows this. Without this right, any forum could collapse, having been taken over by bad elements.

We exercise the right to exclude every day. If you go to lunch, some people come and some people do not. When you have a dinner party, you are careful to include some people and necessarily exclude others. Some restaurants expect and demand shoes and shirts and even coats and ties. The New York Times includes some articles and excludes others, includes some people in its editorial meetings and excludes others.

When business hires, some people make the cut and others do not. It is the same with college admissions, church membership, fraternities, civic clubs, and nearly every other association. They all exercise the right to exclude. It is central to the organization of every aspect of life. If this right is denied, what do we get in its place? Coercion and compulsion. People are forced together by the state, with one group required at the point of a gun to serve another group. This is involuntary servitude, expressly prohibited by the 13th amendment. One presumes that a freedom-loving people will always be against that.

As Larry Elder says: "This is freedom 101."

What about the claim that government should regulate the grounds of exclusion? Let's say, for example, that we do not deny the general right of free association, but narrow its range to address a particular injustice. Is that plausible? Well, freedom is a bit like life, something that is or is not. Slicing and dicing it according to political priorities is exceedingly dangerous. It perpetrates social division, leads to arbitrary power, mandates a form of slavery, and turns the tables on who precisely is in charge in society.

In fact, for the government to presume to regulate the "grounds" of any decision-making is chilling. It presumes the right and ability of government bureaucrats to read minds, as if they can know the real motivation behind every action, regardless of what the decision maker claims. This is how banks in the last decades came to give out mortgage loans promiscuously: they were trying to throw off regulators looking for any sign of racial discrimination.

And, of course, this mind-reading trick is not arbitrary. It is dictated by political pressure. It is hardly surprising, then, that since the Act passed in 1964, the grounds that the regulators say they can discern and thereby forbid have proliferated and are now completely out of control. Has this strategy really increased social well-being, or has it exacerbated conflict among groups that the state has exploited to its own ends?

But do we dare let property owners make such decisions by themselves? From a historical point of view, the injustice against blacks was perpetrated mostly by governments. Private business does not go in for race-based policies, because it means excluding paying customers.

And this is precisely why racialists, nationalists, and hard-core bigots have always opposed liberal capitalism: it includes and excludes based on the cash nexus and without regard to features that collectivists of all sorts regard as important. In the imagined utopias of the national socialists, the champions of commerce are hanged from lampposts as race traitors and enemies of the nation.

That's because the market tends toward an ever-evolving, ever-changing tapestry of association, with patterns that cannot be known in advance and should not be regulated by federal masters. In contrast, government's attempts to regulate association lead to disorder and social calamities.

As Thomas Paine explained: "In those associations which men promiscuously form for the purpose of trade or of any concern, in which government is totally out of the question, and in which they act merely on the principles of society, we see how naturally the various parties unite; and this shows, by comparison, that governments, so far from always being the cause or means of order, are often the destruction of it."

This is precisely why libertarians were right to oppose these provisions of the 1964 Civil Rights Act. They strike at the heart of freedom, and with an extremely high social cost. One is not surprised that thoughtless and anti-intellectual organs of opinion would seek to deny this. But what has surprised me is the speed with which supposed libertarians, especially in the ambit of DC, have been quick to distance themselves from the principle of the freedom of association. I take this not as a measure of intellectual bankruptcy, but as a sign of the fear that so many have, in an age of despotic control, of speaking truth to power.

Becoming Your Own Banker Monthly Lesson

Second in a monthly series of Nelson's lessons, right out of Becoming Your Own Banker. we will continue until we have gone through the entire book.

Part I Lesson 2: *Becoming Your Own Banker*

Content: Page 12, *Becoming Your Own Banker – The Infinite Banking Concept*™, Fifth Edition, Third Printing.

Welcome back to lesson 2. It will probably be useful for you to understand just how this concept came into existence. We are all products of our prior understanding of things. First of all, my initial college degree is in the field of forestry, graduating from the University of Georgia in 1952. A large portion of the root thought of this concept is coming from the study of forest finance -- the fact that you are dealing with compound interest over a long period of time with no taxation on the build-up. The reverse fact is that you must make an investment in planting trees and you won't see any financial return for that same long period. In the forestry world one must think many years into the future.

Some of it is coming from the life insurance business. I made a good living in life insurance sales for 35 years. Knowing how dividend-paying life insurance works is an essential ingredient to it all. Most people have a minimal understanding of the subject, including the home office personnel at life insurance companies. That may seem strange to you, but it is very true. In fact, a case can be made that it is probably the most misunderstood subject in the world.

Lastly, it was strongly influenced by my experience in the real estate business. Recalling that I was educated as a forester, timber is real estate as well as the land on which it grows, so I have been around real estate for all my working life and I developed a deep interest in the subject, and studied many books on it. If you read those books, the central message is not about real estate at all -- it is about the magic of leverage! Essentially, they all say, "Buy some real estate, borrow the money to pay for it (because you are always dealing with borrowed money -- you either borrow money and pay interest or you use your own money and give up interest that you could have earned elsewhere) -- pay interest for a while, then sell the property. All you have given up is the interest you have paid out. That leverage is wonderful."

That is all true – as long as things are going the way the "financial geniuses" describe it in the books. But they never tell you what happens when the lever goes the other way! Frankly, I made some money in the late 70's doing it the way the geniuses explained it. By the way, there have been a number of people who have observed that "financial genius" is a rising market. There were several successful ventures in a row and it looked like there was no end to this bonanza. I could do no wrong! The ventures got bigger and bigger and I got more involved, buying a large number of acres of rural property.

And then I got into real estate development. With the profits from one small parcel, my wife and I went to Europe in 1977 and spent a month! Would you believe it -- I have never seen that property yet? I don't even know where it is! And I did it all according to the "book by the financial geniuses" -- leverage -- other people's money. Just have your realtor find such a deal and attend to all the particulars for you -- and then sell it for you. Marvelous!

There was no logical reason not to expand – and so I did. The interest rate (they called it "the prime rate" in those days -- now called "base rate." This is the rate charged to the bank's most secure customers) at that time was 8%, but your must pay 1.5% over "prime" because you are not in that category. They are not lending you money because you have real estate – they are lending you money because they think you can make payments. Why else would they require personal endorsement on the loan? And you must renew the notes every 90 days (or pay off the loan) at the current interest rate.

I got accustomed to paying 9.5% and that was "normal." And then, along came 1981 and 1982. The prime rate rose and peaked at 21.5%! Add 1.5% on top of that and you see my situation – 23% interest -- and I owed them $500,000.00! That amounts to $67,500 of interest per year that I was not expecting to pay.

When this happens to you, what do you do? Go as the "financial geniuses" that recommended that you do this and ask, "What do I do now?" If you can find them, they may mumble something about "selling the real estate." But where do you find a fool who will buy it under those circumstances? Of course, everything will sell if you get the price low enough -- but losing five times what you paid for it is hardly a good way out.

You can see the predicament that I was in, but that is only part of my total situation. We will save that for Lesson 3. I'll see you there!

www.infinitebanking.org news

"Night of Clarity" and the Privatized Banking Workshop

Questions? Call Carlos Lara at 615-665-2433 or e-mail usatrust@comcast.net

Friday, July 16, 2010 - "A Night of Clarity"

-----------Admission is $65, Students $35-------------

1:00 p.m. Bookstore Opens and Registration Begins

2:00 p.m. Welcome

2:30 p.m. Paul A. Cleveland, Ph.D.: *"An Economist Slowly Learns Nelson Nash's Infinite Banking Concept"*

3:15 p.m. Robert Wenzel: *"Austrian Business Cycle Theory, the '87 Crash, and Other Adventures"*

4:00 p.m. Robert P. Murphy, Ph.D.: "*How Austrian Theory Predicted the Housing Bust"*

4:30 p.m. Discussion and Refreshments

4:45 p.m. Nelson Nash: *"The Feds Are Coming for Your 401(k)"*

5:30 p.m. Thomas Woods, Ph.D.: *"How I Taught Austrian Theory to the Country"*

6:00 p.m. Book Signing, Discussion and Refreshments

6:30 p.m. (Optional) Cocktail Reception, Dinner and Q&A with all Invited Speakers. ***Admission is an additional $85---***

9:30 p.m. - Midnight (Optional, Free) Late Night Murphy VIP Reception at Lonnie's Western Room Karaoke Bar

Saturday, July 17, 2010 - "How Privatized Banking Really Works - Integrating Austrian Economics with the Infinite Banking Concept" An Austrian Theory Work Shop

Work Shop Admission is $395.00 and includes Lunch --

8:30 a.m. Book Store Opens and Registration Begins

9:30 a.m. Welcome

10:00 a.m. L. Carlos Lara: *"The Machinations of Fractional Reserve Banking, Its Origins, How It Works, and How It Destroys"*

11:00 a.m. Robert P. Murphy: *"Learn the Warning Signs of a Coming Crash: The Mises-Hayek Business Cycle Theory"*

12:00 p.m. Lunch

1:00 p.m. R. Nelson Nash: *"How the Infinite Banking Concept Can Protect Your Wealth and Neutralize the Fed"*

2:00 p.m. Closing Remarks: L. Carlos Lara

Questions? Call Carlos Lara at 615-665-2433 or e-mail usatrust@comcast.net

Infinite Banking Concepts Agent Training Course Schedule for 3rd & 4th Quarters 2010

All classes to be held in Lawrence, KS, except the August dates, which will be held in Birmingham, AL*.

Level 1 - July 12-13 (Noon-4pm)

Level 2 - July 14-15 (9am-4pm)

Level 1 - Aug 10 (9am-7pm)*

Level 2 - Aug 11-12 (9am-4pm)*

Level 1 - Sept 13-14 (Noon-4am, 9am-4am)

Level 2 - Sept 15-16 (9am-4pm)

Level 3 - Sept 22-24 (9am-4pm, 9am-4pm, 9am-noon)

Level 1 - Oct 11-12 (Noon-4pm, 9am-4pm)

Level 2 - Oct 13-14 (9am-4pm, 9am-4pm)

Level 1 - Nov 8-9 (Noon-4pm, 9pm-4pm)

Level 2 - Nov 10-11 (9pm-4pm, 9am-4pm)

Level 3 - Nov 15-17 (9am-4pm, 9am-4pm, 9am-noon)

Level 1 - Dec 7 (9am-7pm)

Level 2 - Dec 8-9 (9am-4pm, 9am-4pm)

The *Alpha & Omega Financial Services* Infinite Banking Concept training is the *only* widely offered life insurance agent-oriented IBC training that Nelson and I recommend. We believe that Ray Poteet and Rocky Nystrom have put together a comprehensive training program designed to ensure that attendees fully understand the nuances of IBC, and more importantly, that they *are capable of teaching IBC* to their clients.

Alpha & Omega's standardized IBC training syllabus features three levels of Infinite Banking Concept training tailored specifically for life agents:

Level 1 - The Essentials

Level 2 - The Professional

Level 3 - The Masters

The goal of these courses is to help agents successfully design IBC-related policies and provide the best follow-on support for their clients available.

Level 1 - The Essentials is a 1½ day class where agents will learn the why, what, fundamentals, and how-to's of the Infinite Banking Concept.

Level 2 - The Professional is a 2 day class where agents will learn how to make presentations, design an IBC-customized solution and follow through with clients. The course includes presentation materials and spread-sheet templates.

Level 3 - The Masters is a 2½ day class where agents will learn advanced Infinite Banking topics. *The Masters* is for participants who have completed *The Essentials* and *The Professional levels*.

Rocky. All training will take place at Alpha & Omega classrooms in Lawrence, KS, unless otherwise noted. For more information, and tuition costs please contact Rocky Nystrom, Course Trainer, Alpha & Omega Financial Service. (785) 842-8333, or e-mail Rocky at rocky@alphaomega-fs.com.

Nelson Nash's live Events for the next two months

Nelson live in Ft Worth, TX Tuesday-Wednesday, July 13-14, contact James Neathery, jcneat@gmail.com, 817-790-0405

Friday, 16 July, Nashville, TN "Night of Clarity" contact Carlos Lara, 615-665-2433 or usatrust@comcast.net

Saturday, 17 July, Nashville, TN "How Privatized Banking Really Works - Integrating Austrian Economics with the Infinite Banking Concept" An Austrian Theory Work Shop, contact Carlos Lara, 615-665-2433 or usatrust@comcast.net

Nelson live in Austin, TX Friday-Saturday, July 23-24, contact Teresa Kuhn, tbkuhn@safeharborboy.com, 512-301-7702

Nelson live in Honolulu, HI Friday-Saturday, August 6-7, contact Gain Tsuda, gavin@genwealth.net, 808-383-1215

Nelson live in Ocean Springs, MS Thursday-Friday, 19-20 August, contact Barry Page, barry@legacyinsuranceagency.com, 228-875-5545

Nelson live in Waco, TX Wednesday-Thursday, 25-26 August, contact Chad Castle, chad@coachcastle.com, 254-776-8400

Nelson live in Denver, CO Friday-Saturday, 27-28 August, contact Iris Tucker, josephquijano@aol.com, 303-791-0398

Nelson's newly added Book Recommendations

Meltdown by Thomas E. Woods, Jr.

Studies In Economic Nationalism by Michael A. Heilperin