BankNotes

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NELSON NASH'S MONTHLY NEWSLETTER

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BankNotes newsletter archives are located on our website: www.infinitebanking.org/banknotes.php

Nelson's Favorite Quotes of the Month

"A man who is forced to provide of his own account for his old age must save a part of his income or take out an insurance policy...Such a man is more likely to get an idea of the economic problems of his country than a man whom a pension scheme seemingly relieves of all worries.

—Ludwig von Mises

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

The Immorality of Government Inflation

by Shawn Ritenour

Recently by Shawn Ritenour: Government Stimulus: Out of Sight, Out of Mind

Ben Bernanke and the Federal Reserve are at it again. The most recent policy statement by the Federal Open Market Committee (FOMC) said that current inflation is "somewhat below" levels consistent with stable prices, and that it is "prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate" to maintain stable prices.

Never mind that in the old days when words actually meant something, stable prices meant prices that were actually stable, that is, did not go up or down. Now it seems that stable prices mean prices that are not actually stable, but are prices that continually go up at an acceptable target rate. Also never mind that, as Mises showed us in his Theory of Money and Credit prices are never actually stable, so the Fed's price stabilization policy is doomed from the start.

A full analysis of any economic policy requires holding up that policy to the light of both economic truth and ethics. There is a voluminous literature documenting the economically disastrous consequences of monetary inflation. Work from the likes of Mises, Hayek, Rothbard, Sennholz, Salerno, Garrison, Huerta de Soto and Hülsmann have ably communicated how inflation through artificial credit expansion shrinks the purchasing power of money and sets in motion the business cycle.

What may be less known is that there is a substantial literature amongst Christian scholastics that were able forerunners of later monetary theorists in the Misesian tradition. Guido Hülsmann in his excellent The Ethics of Money Production identifies a long Christian tradition against monetary inflation. In the fourteenth century Nicholas Oresme, a French bishop, integrated various isolated statements about money by Thomas Aquinas, Jean Buridan, and others, and developed what is believed to be the first systematic treatise on money. Drawing upon the work of Oresme and Christian ethics, the later Spanish scholastics further developed monetary theory, roundly criticizing monetary debasement and inflation as both economically destructive and morally evil. More recently Christians such as Gary North, Herbert Schlossberg, and Thomas Woods have argued that monetary inflation violates sound ethics.

There is good reason the Christian tradition finds monetary inflation incompatible with Christian morality. The source of ethics for the Christian is God's revelation in both nature and Scripture. Readers of the Bible will find that it is not silent about monetary debasement, identifying it as a form of fraud. The Levitical law explicitly prohibited fraud in commercial dealings. "You shall do no wrong in judgment, in measures of length or weight or quantity. You shall have just balances, just weights, a just ephah, and a just hin. . ." (Lev. 19:35–36). This negative view of commercial fraud is confirmed in the book of Proverbs which teaches that "Unequal weights are an abomination to the Lord, and false scales are not good" (Prov. 20:23). Through the prophet Micah we find the voice of the Lord indicating he will not "acquit the man with wicked scales and with a bag of deceitful weights" (Mic. 6:11).

We also find that this general moral prohibition against fraud applies specifically against monetary debasement. In the first chapter of the book of Isaiah, the prophet rebukes God's people for numerous sins. "How the faithful city has become a whore, she who was full of justice! Righteousness lodged in her, but now murderers. Your silver has become dross, your best wine mixed with water. Your princes are rebels and companions of thieves. Everyone loves a bribe and runs after gifts. They do not bring justice to the fatherless, and the widow's cause does not come to them." (Isa. 1:21–23). Notice that, in the midst of the sins of murderers and corrupt rulers who administer injustice, the sin of monetary debasement is referenced. It is a clear rebuke against passing off cheap metal as pure silver.

Such debasement is akin to counterfeiting, the act of passing off an inferior object as real money. This is what the people rebuked by Isaiah were doing. They mixed some cheap metal in with silver, thereby making an alloy that looked like pure silver but was not. The money producers were fraudulently passing off the cheap alloy as the real thing.

Money producers did this because they could more cheaply accumulate wealth. Counterfeiting increases the money stock by increasing the number of monetary units. If a silver smith begins to make ingots that are only half silver and half base metal, he can affectively double his cash holdings, because the same amount of silver will go farther. With larger cash balances, counterfeiters can buy more, thus making themselves wealthier. However, those who contractually agree to be paid in pure silver but who instead receive alloy money are being deceived and are victims of fraud.

Such debasement is unethical and results in negative economic consequences, but at least the consequences are kept as local as where the counterfeiter spends the money. The negative consequences of monetary debasement were greatly magnified after the state monopolized the production of money.

In What Has Government Done to Our Money? Murray Rothbard documents the decline of our monetary system from the early days of private gold and silver coinage to the adoption of legal tender laws and government monopolization of money production, the advent of government paper currency, and ultimately to state legitimization of fractional reserve banking and fiat paper money. Rothbard also understood that such a decline is ethically pernicious as well as economically so because, when commercial banks backed by the central bank create money out of thin air ex nihilo, as if they were God, such money is claimed to be payable on demand. However, because banks hold a mere fraction of the reserves necessary to cover all of their outstanding demand deposits, there is no way for them to make good on all of their promises. It turns out that government supported fractional reserve banking is but a contemporary example of monetary fraud. However, legalized counterfeiting is still counterfeiting.

In addition to the ethical problems of fraud, government monetary inflation creates the ethical problem of coercive wealth redistribution. Economists since Richard Cantillon have understood that because of the way newly created money enters the economy, inflation always redistributes wealth. Those who receive the new money first have the advantage of increased purchasing power because they have more money to spend. As the new money ripples through the economy, however, overall prices begin to increase so that, at some point, those who receive the new money are no better off because their increased cash balances are offset by price increases. There are those, alas, who get the new money late in the process and whose increase in cash balances are not enough to offset the increase in prices. Additionally, those on a fixed income do not see a dime of new money, but must pay higher prices just the same. Therefore, monetary inflation increases the wealth of those who receive new money sooner at the expense of those who receive the new money later or not at all. This wealth redistribution is not the result of voluntary exchange of private property, but due to the state's using its monopoly on money production to increase the money supply. It is wealth redistribution at the point of a gun. If you or I tried to do that we would rightly be prosecuted for criminal activity. That fact that when the state does it is considered "monetary policy" does not make it more legitimate.

Government monopolization of the money supply and state inflation violates the right of private property on many levels. Such state intervention in the monetary system, therefore, cannot be accepted as ethical. Moving to more moral monetary institutions requires abolishing the Federal Reserve and fractional reserve banking and getting the state completely out of the monetary system.

September 24, 2010

Dr. Shawn Ritenour is professor of economics at Grove City College, contributor to the Center for Vision & Values, and adjunct professor at the Mises Institute in Auburn, AL. He is the author of *Foundations of Economics: A Christian View.*

Hooray, the Recession is Over!

By: Robert P. Murphy | Monday, September 27, 2010

Some days, it's embarrassing to be a professional economist. On Monday, the National Bureau of Economic Research (NBER) officially declared that our recession had ended — 15 months ago. Yes, that's right, just as more and more analysts are worried about the economy imploding again, the NBER announces that the recession ended back in June 2009. The whole episode underscores the crudity of mainstream economics.

The NBER's Announcement

To be fair, let's quote from the actual statement:

> CAMBRIDGE, September 20, 2010 — The Business Cycle Dating Committee of the National Bureau of Economic Research met yesterday by conference call. At its meeting, the committee determined that a trough in business activity occurred in the U.S. economy in June 2009. The trough marks the end of the recession that began in December 2007 and the beginning of an expansion. The recession lasted 18 months, which makes it the longest of any recession since World War II. ...
>
> In determining that a trough occurred in June 2009, the committee did not conclude that economic conditions since that month have been favorable or that the economy has returned to operating at normal capacity. Rather, the committee determined only that the recession ended and a recovery began in that month.
>
> The committee decided that any future downturn of the economy would be a new recession and not a continuation of the recession that began in December 2007. The basis for this decision was the length and strength of the recovery to date.

If nothing else, the NBER's announcement should give serious pause to those who chastise the Austrians for their "unscientific" approach to economics. Ludwig von Mises famously argued that the economist should proceed by logical deduction, rather than by aping the method of the physicists.

Naturally, many mainstream economists mocked Mises for these ostensibly Neanderthal views; Paul Samuelson wrote, "I tremble for the reputation of my subject." It's funny, because I have a similar reaction to the opinion from our macroeconomic wizards at the NBER.

Just stop and think about what has happened: According to the NBER, the US economy went through a severe recession from December 2007 to June 2009. Now it took the NBER until December 1, 2008 to announce that the economy was in a recession — a full year after it began (according to the same NBER). And then, with this week's announcement, the NBER announced that the economy had exited the recession, a full 15 months after the fact.

The NBER Business Cycle Dating Committee is composed of some pretty prestigious names (see the list at the bottom of this article). I certainly am not suggesting that these guys are a bunch of idiots.

Rather, I am pointing out the virtual uselessness of the empirical approach when it comes to "fine-tuning" the macroeconomy. Even if we had reason to believe that government policies could overcome the failings of the free market, such interventions would be as hopeless as those of an Earth surgeon operating on a Martian patient with a remote-controlled scalpel. The information lag would be enormous.

Besides the Lags, the Definitions Are Crazy

The problem isn't simply one of delayed information. The very approach of mainstream macroeconomics — with its focus on aggregates such as "Gross Domestic Product" and "Gross Domestic Income" — is misguided, and tends to support the same interventionist policies that prolong crises.

For example, most readers probably think that the US economy was in one heck of a funk throughout the 1930s. After all, people refer to this period as "the Great Depression." And sure enough, from 1931 to 1940, the official annual unemployment rate never dropped below 14.3 percent. So the average American would no doubt have felt as if the economy were really awful for this entire period.

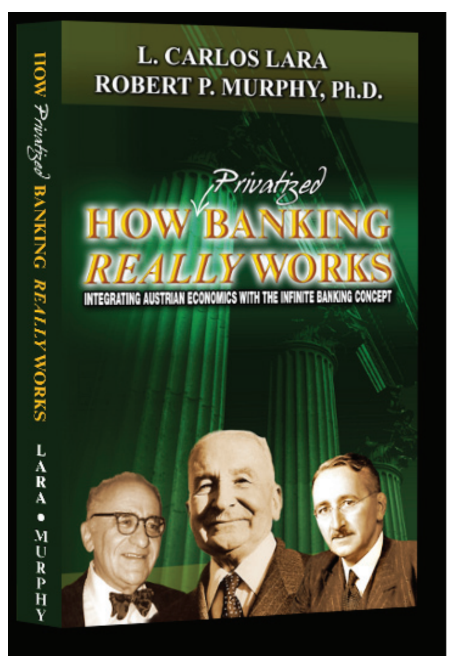
And yet, if you go to the NBER's chronology of business cycles, you'll see that "the Great Depression" is apparently a misnomer. There was a recession from August, 1929 through March, 1933, and then another (short) one from May, 1937 through June, 1938.

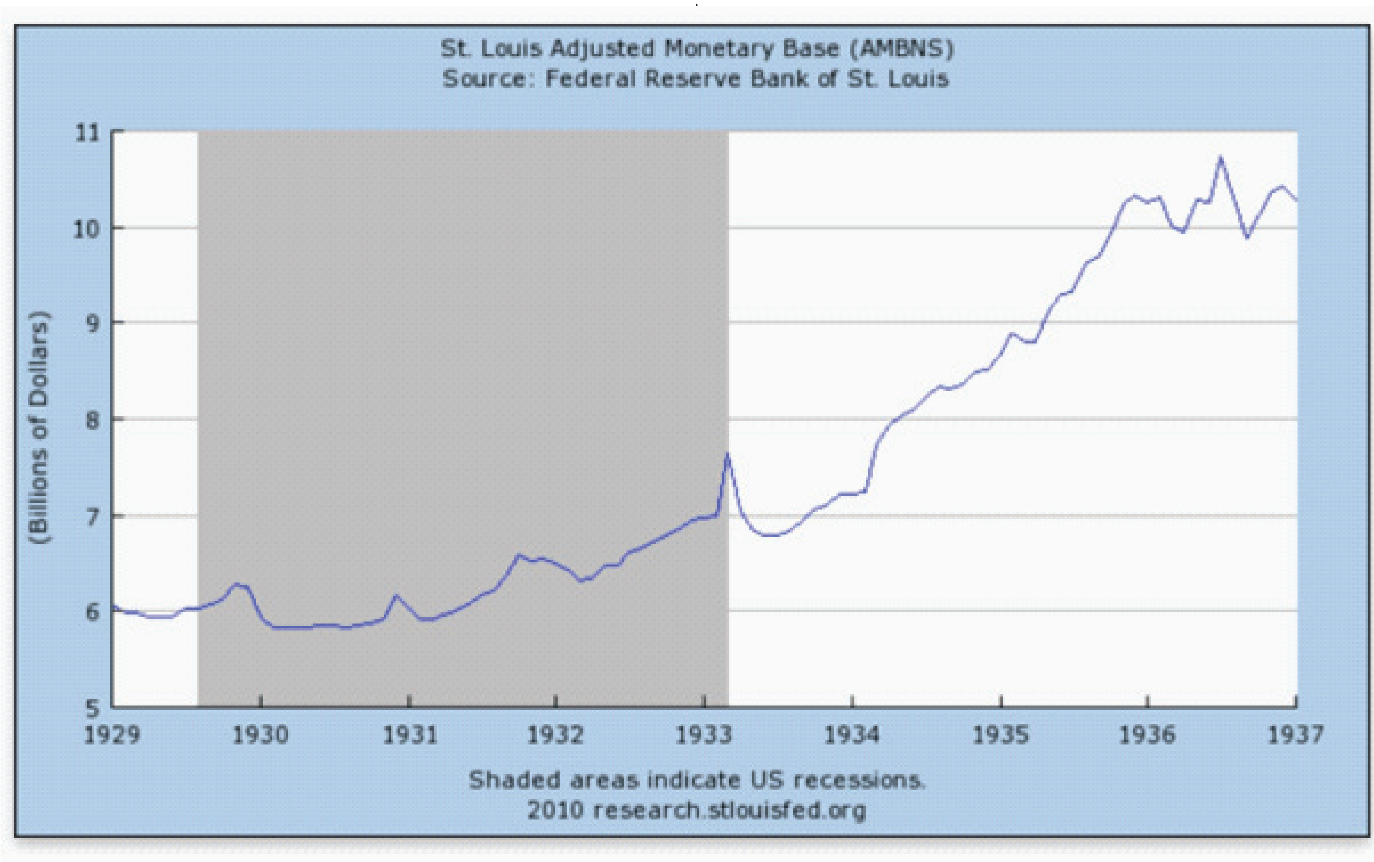
In particular, the NBER says the US economy was in a recovery from March, 1933 through May, 1937, even though the annual unemployment rates for the intervening three years were 21.7 percent, 20.1 percent, and 17.0 percent. That's a rather anemic recovery, wouldn't you say?

Let's say you are running and then break a leg. You have to crawl now, but you develop that skill and are able to get from here to there. Are you in recovery from the accident? According to the NBER, yes — so long as you are crawling faster than when you first hit the ground in agony.

The problem isn't simply one of technical economic definitions differing from those of the layperson. No, the problem is that the reliance on (fairly ambiguous) aggregates gives false credit to harmful policies. For example, what happened in March, 1933 that "ended" the awful recession under Herbert Hoover? Why, that was the exact month that FDR was inaugurated.

Among other things, when FDR came into office he immediately declared a "bank holiday" and — oh yes — seized everybody's gold. By taking the United States off the gold standard, he gave the Fed the green light to deliver a quick burst of monetary inflation followed by a more general expansion:





Of course, there are plenty of macroeconomists who think that FDR's new policies really did fix the economy, and that it was only Fed tightness (combined with FDR's misguided attempts at budget austerity) that led to a relapse in 1937.

I have dealt with such empirical claims here. In the present article, I just want to point out that the NBER's techniques implicitly justify big government. For example, suppose the Austrians are right, and that the Fed's massive interventions — coupled with the federal government's absurd "stimulus" programs and other power grabs — at best will postpone the economic correction, and in fact they will make the crash that much worse.

Well, according to the way the NBER works, nobody would ever know this. Instead, "history" will record that Bernanke and Obama did indeed manage to end the awful Great Recession — specifically, in June of 2009 — but then something else came along and inexplicably wrecked things. Maybe Christine O'Donnell.

Conclusion

The NBER's delayed calls on the start and end of business cycles are fodder for late-night comedians. The average American knew full well the economy was in trouble well before the NBER announced it, and the average American knows full well that our economy is still in serious trouble.

Worse yet, the NBER's approach justifies massive central-bank and government interventions into the economy. The "scientific" approach to macroeconomics will never yield positive results unless the diagnostic technique takes some lessons from Austrian economics.

Robert Murphy is an adjunct scholar of the Mises Institute, where he will be teaching "Principles of Economics" at the Mises Academy this fall. He runs the blog Free Advice and is the author of The Politically Incorrect Guide to Capitalism, the Study Guide to Man, Economy, and State with Power and Market, the Human Action Study Guide, and The Politically Incorrect Guide to the Great Depression and the New Deal.

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

PART I LESSON 5: *BECOMING YOUR OWN BANKER* Content: Page 15, *Becoming Your Own Banker – The Infinite Banking Concept*™, Fifth Edition, Third Printing.

The Grocery Store

Continuing our exercise in imagination, I would like to put you into a business in which you are both a seller and a consumer of products. I pick the grocery business since everyone uses groceries -- there are no exceptions. Someone must perform the function of the grocer. You have an unlimited market. Everyone is a potential customer -- as well as you and your family and maybe some other "captive customers" – these are folks who are not going somewhere else to buy groceries.

Before getting into the business you need to study it for at least two years. You had better understand it inside and out before you start or your competition will "eat your lunch!" It is a very competitive business. This is going to take some time and expense.

Next, you must find a superior location for your business. Real estate agents say there are three qualities of real estate -- location, location, and location. This is not an overnight activity. You are going to spend some time getting the right property and for this you are going to have to pay a premium price.

Now you are going to have to put an attractive building on that very high- priced property. This, too, is going to cost you a lot of money.

Then, you must stock the store with quality merchandise and it must be attractively arranged and maintained. This means you are going to have to have "hired help" (that's "Southern" for employees) -- you are never going to be able to run this business alone. Mom and Pop grocery stores are gone forever. Face it! Your employees must be attentive to customer needs, courteous and neat. You have spent a lot of money and time just to get to this point -- and you haven't made a dime yet!

At long last, you open the front door for customers -- they come in and load their carts with groceries and take them by the cashier who collects their money at the front of the store. This is going to leave empty spaces in the display of goods. Your "hired help" is busy cruising the aisles, noticing where goods have been sold and very quickly going to the storeroom at the back of the store to get more things to fill up those spaces. It is imperative that the store appear to be fully stocked at all times. The customers demand it. Have you ever been to a grocery that was only partially stocked? Do you go back there to shop or do you go to some other store where managers pay closer attention to their business?

All of this means that you are going to have to re-stock the storeroom at other intervals to insure that you have immediate access to an adequate supply of groceries. Once you have all this set up and in operation, the difference between the "front door" and the "back door" is a very good living -- if you can turn the inventory enough times during the year. If you sell a can of peas for 60 cents at the front door, you have to replace it at the back door at a cost of 57 cents. (I have found this to be a shocking revelation to most everyone). Grocery stores operate on a very small margin on such items. There is a different markup on meats, produce, and certain other items, but for things like canned goods that's the way it is.

The can of peas sitting on your shelves is inventory and you must turn the inventory 15 times just to break even. There is all that interest you must pay on the huge sums of money you have borrowed to buy the land, the building, the inventory, the signs, advertising, payroll and fringe benefits, utilities, legal fees, accounting, etc. just to name a few. Turn the inventory 17 times per year and you have a nice profit. If you can turn the inventory 20 times per year you can retire early. Something dramatic happens once you get "over the hump."

This reminds me of a phenomenon in physics – get a bucket of water at seaside (I want you at sea level) and heat it up to 210 degrees Fahrenheit and all you have is very hot water. Heat is up just 2 more degrees and you have live steam with unbelievable power! The steam engine changed the world. But it doesn't happen until you get to 212 degrees F at sea level. Lots of heat goes into the process up to the boiling point but the dramatic power comes suddenly.

The objective of the business is to provide you with an income and to show a continuous profit picture over a long period of time, say 30 to 40 years. Then you sell the business and use the proceeds to buy a large annuity that will pay you retirement income for the remainder of your life.

So far, we have a very simple business. In the next lesson we will introduce the complications that can destroy your business. See you then!

Infinite Banking Concepts Agent Training

These are the last training sessions scheduled for 2010! All classes to be held in Lawrence, KS.

Level 1 - The Essentials - Oct 11-12

Level 2 - The Professional - Oct 13-14

Level 3 - The Masters - Nov 15-17

Knowing how to teach your clients the benefits of the Infinite Banking Concept will make you the most valuable financial resource your clients have. It will also make you an indispensible asset to your agency. This training will revolutionize your practice!

"By becoming an IBC expert, you can rescue the financial future of your clients and better your financial future at the same time."

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:

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*.

For more information, and tuition costs please contact Rocky Nystrom, Course Trainer, Alpha & Omega Financial Services. (785) 842-8333, or e-mail Rocky at rocky@alphaomega-fs.com.

http://ibctraining.com/contactus.html

Save the Date - IBC Think Tank Symposium, February 9-10, 2011

The next IBC Think Tank SYMPOSIUM is scheduled for 9-10 February, 2011.

The "Seen" and the "Unseen" of Private Banking is the theme for this event.

Our Infinite Banking Concepts Think Tanks promote economic education through the sharing of IBC success stories, case studies, and advanced private banking ideas. New materials and products are introduced - there are presentations from financial services professionals and noted published economic educators.

If you have not attended an IBC Think Tank, and wish to see what they are all about, we sell DVD sets of past Think Tank conferences on our website; check the video section of our website store.

Birmingham, Alabama location to be announced.

Detailed agenda and speakers to be announced. I can tell you that if you missed the "Night of Clarity" in Nashville this past July, both Carlos Lara and Robert Murphy will be on the agenda.

If you know you will attend, please let me know as soon as possible.

Sincerely,
David Stearns
david@infinitebanking.org
phone: 205-276-2977

Nelson Nash's live Events for the next two months

Nelson live in Las Vegas Tue, Oct 5 - Wed, Oct 6, contact Bob Gaston, bob@bobgaston.com, 801-834-1990

Nelson live in Boerne, TX, Fri, Oct 15 - Sat, Oct 16, contact Janet Sims, janet_sims@financialprocessgroup.com, 830-331-9805

Nelson live in Ft Worth, TX, Tue, Oct 19 - Wed, Oct 20, contact James Neathery, jcneat@gmail.com, 817-790-0405

Nelson live in Austin, TX, Thu, Oct 21 - Fri, Oct 22, contact Paul McDonald, paul@econwbs.com, 512-459-5966

Nelson live in Dallas, TX, Fri, Oct 29 - Sat, Oct 30, contact Teresa Kuhn, tkuhn@safeharborboy.com, 512-301-7702

Nelson live in Salem, OR, Thu, Nov 4 - Fri, Nov 5, contact Michele McFie, Michele@Life-Benefits.com, 503-363-LIFE (5433)

Nelson live in Nacogdoches, TX, Tue, Nov 9 - Wed, Nov 10, contact Ricky Heard, rickyh@cbhins.com, 936-564-1735

Nelson live in Little Rock, AR, Thu, Nov 1 - Fri, Nov 12, contact Becky Rice, BECKY@REBECCARICE.NET, 501-221-7400

Nelson live in Cincinnati, OH, Fri, Nov 19 - Sat, Nov 20, contact Rich Villers, rich@msfai.com, 513-891-7019

Nelson's newly added Book Recommendations

American Empire Before The Fall by Bruce Fein

Notes on Democracy by H. L. Mencken