Automobile financing section of Becoming Your Own Banker®

In the recent past there have a number of people who have called or e-mailed with a question regarding automobile financing Method E [starting on page 42] in my book. To clear up any misunderstanding, I wrote the following explanation and it will be added to the next printing of the Fifth Edition to BYOB. You might consider running off a copy of the following for your own clarification. – R. Nelson Nash

Note that the illustration on page 46 & 47 (Fifth Edition) does not show any policy loans to make the car purchases. The purchases are made by use of dividend withdrawals.

If I were in the life insurance business, I would never suggest that a client do it this way. I would recommend policy loans to buy the cars.

There is a simple reason for this procedure. Remember, the earlier one start a life insurance policy -- and the longer it stays in force -- the more efficient it gets. When one surrenders Paid-Up Additional Insurance, you are surrendering a small portion of Paid-Up Insurance that has recently been created. Hence, you are killing the growth potential of that much of the policy. If you use policy loans, instead, then you are not terminating this potential. The policy values continue to grow.

So, you ask, “Why are you demonstrating dividend surrenders?” Simply, because there a many people, when they see the word “loan,” their brain goes into deep freeze. “Loan means something bad – something I should not do.” I just wanted to demonstrate that the concept could be done this way for the benefit of those who have that problem.

To put all of this in perspective, study the Financial Statement of a conventional bank. Deposits to a bank are LIABILITIES – something they owe to their depositors. Loans are an ASSET to the bank – it is their source of income!!!

The Infinite Banking Concept is teaching you how to BECOME YOUR OWN BANKER. When you make a policy loan from the Life Insurance Company, you are borrowing from the cash value thereof. When you make loan repayments it is going to the life insurance company. You are just another place that the company makes investments to carry out the purpose of the policy – to be able to pay the death claim. You, the policy owner have a contractual right to borrow the full cash value at any time.

And, so, your cash value grows each year and you participate in the earnings of the company in the form of dividends paid to you. You will see this more clearly when you get to the Equipment Financing
section on page 51.

There are only two hard, fast rules in building and in carrying out this concept:

1. Don’t be afraid to capitalize the system. The more capital you put into it, the more you get back, tax-free at “passive income” time (some folks refer to this as “retirement income” but, I’m removing the word “retirement” from my vocabulary).

2. Don’t make policy loans without making provisions for paying them back (stealing from your system – just as in the grocery business – don’t steal the peas!!).

How simple can it get?

Furthermore, this procedure provides a place to put “windfall money” for things that do come along in life, such as inheritances, proceeds from sales of various kinds of property, death benefits from policies on which you are the owner and/or beneficiary, etc., etc. These possibilities are real in life. I have experienced several of them. – R. Nelson Nash

Left are not happy, and today, I wish to concentrate on the attacks on Rep. Paul by another Paul, that being Krugman, who has deliberately misrepresented Rep. Paul’s positions in recent columns and blog posts.

Krugman’s December 20 column called Rep. Paul a “zombie,” and then proceeded to attribute false views to the congressman. All in a day’s work for the man whose name disgraces the Nobel Memorial Prize for Economics.

Actually, Krugman’s smears began over the weekend when he first gave Rep. Paul a backhanded “compliment” for being consistent in his thinking, but then wrote that his ideas were “crazy.” Wrote Krugman:

In a way, I almost welcome the frankness of someone like Ron Paul, who tells us that there’s no need for any kind of bank regulations. It’s crazy, of course – even Adam Smith called for bank regulations, comparing them to building regulations designed to prevent the spread of fires. But at least the guy’s consistent.

However, this is what Rep. Paul actually said:

“I don’t think we need regulators. We need law and order. We need people to fulfill their contracts.”

He added: “The market is a great regulator, and we’ve lost understanding and confidence that the market is probably a much stricter regulator.”

What Rep. Paul wants is not government regulation, nor does he approve of “self-regulation,” but rather he wants market regulation which comes about via profits and losses. For example, the banking crisis that came about in the fall of 2008 existed because consumers and investors were telling the banks they made wrong choices, and that they needed to pay.

However, Congress (with Krugman’s approval) intervened and then pretty much proceeded to nationalize the country’s financial system. As Austrians (and we count Dr. Paul among our number) have noted, this will not make the financial regime more stable and it certainly will not make it more solvent. It just makes the hole deeper and the Day of Reckoning even more sinister.

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The Smearing of Ron Paul
by William L. Anderson

Recently by William L. Anderson: Libertarians, Power, and the Message of Freedom

When the Republicans retook the U.S. House of Representatives last November, it meant that Ron Paul would be in line to chair the subcommittee that oversees the Federal Reserve System. Despite the intense lobbying by Ben Bernanke and others who loathed the prospect of Rep. Paul being able to subpoena them to appear before Congress and then to ask them pointed questions about their secret operations, the Republican leadership still gave Rep. Paul his rightful position.

Obviously, the Usual Suspects on the Right and the
Krugman hardly was through. He then created another post for his blog in which he misrepresents Dr. Paul’s views on money. Krugman writes:

I used that term (paleomonetarism) – it’s probably not original, but who knows? – in a recent post about the increasingly obscure meaning of the money supply. The best example would surely be Ron Paul, who’s now going to have oversight over the Fed. If you read his stuff, it’s very clear: money is a well-defined quantity that the Fed controls, and inflation comes from – indeed is defined as – increases in that quantity.

What he means, I guess, is monetary base.

Krugman then goes on to compare the changes in the monetary base with the changes in the CPI in order to claim that Dr. Paul is wrong on money and wrong on inflation. Robert Wenzel deftly challenges Krugman in this blog post.

However, Krugman was just getting warmed up, and his December 20 column not only refers to Dr. Paul as a “zombie,” but he repeats the “regulation” quote but this time fails to link Dr. Paul’s statements to the article in the Wall Street Journal from where the quote came. He writes:

When historians look back at 2008–10, what will puzzle them most, I believe, is the strange triumph of failed ideas. Free-market fundamentalists have been wrong about everything – yet they now dominate the political scene more thoroughly than ever.

How did that happen? How, after runaway banks brought the economy to its knees, did we end up with Ron Paul, who says “I don’t think we need regulators,” about to take over a key House panel overseeing the Fed?

We can expect much, much more of this, and not just from Paul Krugman. Ben Bernanke has lots of friends in the media, and one can be sure that Bernanke will be the source of “anonymous” quotes that will denigrate Dr. Paul’s character and his understanding of money and the economy. For that matter, Bernanke was the chair of the economics department at Princeton when the university hired Krugman, so one can be sure that Krugman has Bernanke’s back.

Furthermore, one can bet that much of the banking and monetary establishment is going to try to destroy Dr. Paul’s character over the next two years, and given that the Washington media really does not care about facts and certainly not the truth, one can bet that every false rumor about Ron Paul will be bandied about by the mainstream media.

Of all people, Krugman understands that when an academic writer such as himself deliberately misrepresents someone by using a quote to push a point of view the other person does not have, he is engaged in fraud. This is the kind of fraud that at one time discredited someone to a point where his good reputation and sometimes his academic position were taken away from him.

Obviously, that no longer is the case. Krugman has signaled that he is quite willing to be a hatchet man for Bernanke and others and to insult and misrepresent what Ron Paul is doing and saying. That Bernanke and his Wall Street friends are willing to go along with this tells us much more about them than I really want to know.

(I would add that Henry Hazlitt, who was a much better economic thinker than Krugman ever will be, wrote columns for Newsweek for many years, yet never engaged in this kind of personal invective. Today, invective is about all Krugman and others like him understand.)

It is going to become even uglier than it is now, and the new Congress has not even been seated.

December 21, 2010

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Because We Want to Fly

by Christopher Westley on March 3, 2010

It’s not always easy to catch a morning flight. You pack the night before, with an eye to preparing for the security and logistics hurdles you must go through to make it on the plane.

Liquids and gels go in a one-quart Ziploc. But what liquids? Will someone nab my contact-lens cleaner for being in too big of a container? Then there are the bags you can no longer carry on the plane. Which to take? If you fly only intermittently, such details are easy to forget.

It gets harder when your airport is in an earlier time zone and a good two-hour drive away, a nuisance translating into an hour of lost sleep the lucky denizens of the airport’s time zone take for granted.

The shuttle driver at the Park ‘n Ride is (invariably) from a third-world country, polite and helpful, and genuinely appreciative of his job. Modern life would crumble if too many low-skilled jobs like his were declared illegal. (But this is, in effect, what Congress does whenever it increases the minimum wage.)

Meanwhile, the ever-expanding federal programs intended to increase the number of college graduates each year are creating what Nobel laureate F.A. Hayek would call a malinvestment in human capital.

We see such malinvestment today when college graduates take jobs they might have gotten anyway had they simply avoided college and entered the work force at age 18. Such individuals begin their adult lives laden with debt and bad feelings one could not perceive in my Haitian shuttle driver. Comparatively, he seemed quite free.

Once at the airport, there is the sensitive matter of navigating security. Shoes, laptops, belts, loose change, jewelry, pocket lint — all of it gets dumped into germy, grey storage bins and shoved through the X-ray machine, and we comply because we desperately want to get to Point B.

It is a marvel that the system works despite these and countless other interventions in the natural right to travel. Think of the numerous coordination problems that get solved, daily, at the major airports of the world.

My flight is a mere microcosm. It left at 9:44 a.m., and landed at my destination at 11:33 a.m. My plane began the day in Milwaukee, a Midwestern city practically on the other side of the country. It would end the day in Washington after making stops in Atlanta and Ft. Myers. And this was just one of hundreds of planes operated that single day at a single airport.

Before my boarding, the plane was variously loaded and unloaded with food and drink, fuel and garbage, cleaning crews and airplane mechanics. The pilot, copilot and stewards were exchanged for new ones. When determining its schedule, the airline must consider the time necessary for taxiing the plane, something that differs from airport to airport. My plane taxied for what seemed like 25 minutes, but when it was finally airborne, complex calculations helped it to arrive at the advertised time.

Multiply this by hundreds of flights an hour going in all directions; and consider the coordination of scads of decentralized workers connected in some way to the airport, to say nothing of the paying customers whose desire to fly justifies all of the activity. How does it all get done?

It happens in spite of the state or its oversight, no matter what our transportation ministers tell us. There is a reason why the Eastern Bloc countries were better known for the prowess of their female Olympic gymnasts than the desirability of their airports.

It works because of the interplay between property rights and prices. Property rights, when well-defined and protected, create incentives for self-interested owners to utilize resources in numerous ways that promote the social good.

Market prices lead property owners to arrange resources in different forms: wages for pilots, baggage handlers, airplane mechanics, and airport bartenders; loans that help fund training facilities, airports, and aircraft themselves; ticket scanning machines and automatic-flush toilets; and even the shortbread
cookies you are served once up in the air. No czar could pull off such an amazing feat of coordination, and yet it happens day in and day out.

Sure, there are glitches, but they are so unusual that they make the lead story in the evening news when they occur. Despite the state control of so many aspects of modern commercial air travel, I made it to my destination with no problem and with much help from thousands of people I didn’t know. What’s remarkable is that it is still considered, by so many, unremarkable.

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**The Fed: The Chicago School’s Achilles Heel**

by Robert P. Murphy on December 13, 2010

In a recent post “Triumph of the Austrian Economists,” David Frum laments the displacement of the respectable Chicago School as the economists of choice among the political Right. Frum fails to see that conservative Republicans are justified in switching their allegiance to the Austrian economists, because supply-side monetarists have a glaring blind spot when it comes to the Federal Reserve.

Frum Is Flummoxed

Frum is dismayed at the resurgent interest in Austrian analysis and policy recommendations:

An important subtheme of Noah Green’s survey of Fed critics is the triumph of Austrian over Chicago economics within the modern political right.

Thirty years ago, right-of-center economists did not accept recessions as necessary and indeed healthful responses to speculative bubbles. They still winced at the memory of Hoover era officials who welcomed the Great Depression as a means to “purge the rottenness” from the market system.

Thirty years ago, right-of-center economists did not celebrate high interest rates as a safeguard of the currency. Thirty years ago, they measured inflation by the dollar’s ability to buy goods and services — not its value relative to gold or some other commodity.

Even today, probably most business economists — most Republican economists! — reject those ideas. I notice that the e21 letter criticizing the Fed was not signed by two distinguished right-of-center academic economists, Greg Mankiw and Robert Barro. I notice that it was not signed by President George W. Bush’s two leading economic advisers, Glenn Hubbard and Larry Lindsey.

In the first place, Frum seems to have forgotten that, after several years of Republican control of both Congress and the White House, we are in the midst of the worst economic crisis since the Great Depression. For all I know, the president ignored their advice, but the refusal of economic advisers to George W. Bush to sign a letter hardly makes me suspicious of the letter’s soundness.

Before delving into the main focus of this article — namely, the superiority of the Austrian over the Chicago School when it comes to the insidious role of the Fed — I want to correct two historical errors in Frum’s condescending post:

Frum’s line about “Hoover era officials” who wanted to “purge the rottenness out of the system” is a reference to Andrew Mellon, treasury secretary to Herbert Hoover. In Hoover’s memoirs, he describes the White House discussions following the stock-market crash of October 1929. Hoover explains that Mellon did indeed advocate a policy of liquidationism, in which the federal government would stand back and allow the market to run its natural course.

This is the point at which modern Keynesians — a category that includes David Frum himself, whether or not he chooses to use the label — stop quoting from Hoover’s memoirs. “Aha!” they say, “Hoover sat back and did nothing, and that’s why the 1929 crash turned into the Great Depression. Quick, let’s
spend some more borrowed money!”

Unfortunately for the Keynesians, if they would just read the very next page in Hoover’s memoirs, he explains that he rejected Mellon’s advice. Even though people like Paul Krugman, Brad DeLong, and yes, David Frum continue to insist otherwise, Herbert Hoover was a big-government man who instituted a New Deal lite.

Incidentally, that is why the financial crash that occurred on his watch mushroomed into the Great Depression. If Hoover had actually been the laissez-faire ideologue portrayed by his critics — if Hoover really had done nothing much, just as his predecessors did when facing their own financial panics — then modern Americans wouldn’t know anything about him. How many Americans can confidently identify the presidents during the Panic of 1819 or the Panic of 1907? Yet everybody “knows” that Herbert Hoover caused the Great Depression because he believed in pure capitalism.

Besides perpetuating the myth of a liquidationist Hoover, Frum also seems to be ignorant of how the Volcker Fed ended the Carter-era stagflation and ushered in the “Great Moderation.” Specifically, Paul Volcker restored people’s faith in the US dollar by jacking up interest rates and by stabilizing commodity prices (as explained at the time in the Wall Street Journal by Arthur Laffer, whose Chicago School bona fides Frum presumably can respect).

The Achilles Heel of the Chicago School

People often ask me why I call myself an Austrian economist, as opposed to a more generic “free-market economist.” After all, what’s the big difference between the average Austrian and the average supply-side monetarist?

Beyond the methodological differences, in practice the Chicago School has one major shortcoming: its neglect of capital theory. Specifically, many followers of Milton Friedman think that the Fed is “doing its job” so long as the CPI does not rise too quickly.

Ludwig von Mises and Friedrich Hayek pointed out long ago that this “[consumer] price stabilization rule” would lead to disaster. Indeed, Murray Rothbard stressed that the stock-market bubble of the late 1920s — fueled by the Fed’s policies — did not coincide with rampant consumer-price inflation.

We saw a similar pattern in our times, during the housing-bubble years. Many prominent Chicago School economists thought everything was fine. After all, the Bush administration had (modestly) cut tax rates, and although it had increased spending far too much, that would hardly sow the seeds for a minidepression. It was also true that Fannie Mae, Freddie Mac, and other government incentives were pushing banks into making risky loans, but I do not recall any Chicago School economists before the crash saying that this would devastate the economy.

On the other hand, there were plenty of academics and investors who relied on Austrian business-cycle theory to diagnose the housing bubble. They quite rightly understood that the Greenspan Fed’s decision to push interest rates down to incredible lows would distort the capital structure of the economy (the regulation of which is, after all, what the market-interest rate is for, in the Austrian view). Artificially low interest rates could generate a euphoric boom, but it would inevitably give way to a bust.

Paul Krugman is right when he says that many of the current critics of Keynesian policies were caught completely flat-footed by the housing crash. In contrast, some interventionist economists (such as Nouriel Roubini) went on record with surprisingly accurate predictions of how fragile the economy was.

Conclusion

Conservative Republicans have traditionally associated themselves with the Chicago School. But if the only choice is between that approach — especially in its most extreme rational expectations form — and the worldview of a Roubini or Krugman, conservatives will appear incapable of explaining major crashes, which is a rather serious weakness.

No school of economic thought is perfect; I personally learned more about international trade from the work of Arthur Laffer than I have from the Austrians. But
when it comes to explaining the boom-bust cycle — and recognizing the dangers of Bernanke’s actions — I turn to the Austrians.

Robert Murphy is an adjunct scholar of the Mises Institute, where he will be teaching “Anatomy of the Fed” at the Mises Academy this winter. 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. rpm@ConsultingByRPM.com See Robert P. Murphy’s article archives.

Infinite Banking Concepts is Ridiculously Simple! - Those of you that have attended Nelson’s seminar have heard him make this statement.

Below is a recent seminar “after action review” that mirrors Nelson’s comment.

\[\text{I went to a seminar that was about banking and money. The three main topics were saving, loans and repaying the loans.}\]

\[\text{In the savings part of the seminar the speaker [Nelson] told us the importance of saving money and not spending everything we make. Once enough money is saved, we can begin to take a loan from the money we saved.}\]

\[\text{The loans that we take from our own “bank” have to be paid back with interest just like a normal bank would charge us.}\]

\[\text{When we pay back our loans with interest you have more money in your savings instead of giving the money to the bank.}\]

\[\text{The speaker made it very clear that you should only take loans that you can repay. He also said that the more interest you pay yourself, your savings is greater.}\]

\[\text{This made sense to me because, you shouldn’t spend your money like crazy and you should have to save for the future. -- Natalie Lasko, age 8}\]

Seventh 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 8: BECOMING YOUR OWN BANKER®**


There is an analogy from the airplane world that helps us to see the absurdity of what we saw in lesson 7 of how the average American handles his money.

I’ve been a pilot for over 64 years and it was obvious to me from the start that you can’t fly an airplane through a vacuum. It must go through an environment.

You have seen the weather maps with the “highs” and “lows” on it. The best flying weather is in the “highs.” Bad weather is associated with the “lows.” In the northern hemisphere the “highs” turn clockwise and they will move from west to east over the face of the earth.

Now, imagine this – there is a gigantic “high” that covers almost all of North America and the center is right over the middle of the country (Western Kansas). You are located in Birmingham, AL, you have an airplane that will fly 100 miles per hour and you want to fly to Chicago. The problem is that you have a headwind of 345 miles per hour! (notice the 3.45 to 1 ratio that we had in lesson 7). Guess which direction the airplane is moving! Right! Towards Cuba at 245 miles per hour! It matters not what the airspeed indicator is telling you. The results are dictated by the environment. If you really want to go to Chicago, under these circumstances this is a good time to get your airplane on the ground – quickly! It is the best thing you can do.

Have some patience. Let the air mass move on -- it will -- they always do -- and it will move from west to east. When the “high” gets directly over Indianapolis, now get in the airplane and head to Chicago. There is no headwind
and you are covering the ground at 100 miles per hour. At this stage, what I refer to as “the arrival syndrome” comes into play. “Whee, we are making progress toward our goal and you just can’t do any better than this!”

Nonsense! Stay on the ground and let the air mass move on further east. Now it is centered over Washington, DC. Now you have an airplane that can fly at 100 miles per hour but it is being pushed toward your goal by a tailwind of 345 miles per hour. Your ground speed is 445 miles per hour! Fantastic! This is a dramatic improvement over the first two situations. But, you see, it is much more dramatic than what most folks think.

Everything you do in the financial world is compared with what everyone else is doing. In America, most folks are doing the equivalent of flying with a 345 mile per hour headwind. Isn’t it obvious, if you have a 345 mile per hour tailwind, that the difference between you and them is 690 miles per hour? In all three examples the capability of the airplane is the same -- 100 miles per hour.

Translate this example into the financial world and it is pretty obvious what is really going on. Many financial gurus are concentrating on encouraging people to “get out of debt” and that is a wonderful thing to do. In our airplane analogy that is the equivalent of flying with no headwind. But, I have yet to hear one of these folks recognize that the most profitable thing one can do is to create the perpetual “tailwind” to everything that you do financially. It seems that this thought never registers in their consciousness.

But, most financial gurus spend all their time “trying to make the airplane fly at 105 miles per hour” or something like that! Controlling the environment in which the airplane flies is far more effective.

You can’t do anything about the environment in the airplane world, but you can do it in the financial world. It must be done by creating a banking system that serves all your financial needs.

This course is about how to create a perpetual tailwind to your financial world that will, eventually, serve everything you do. You can’t do it without getting in the banking business. In the next lesson we will see what it is like to get in that business.

Pleasant dreams! Use your imagination. It can be a wonderful world for you!
We invite you to join us February 9 and 10 in Birmingham, Alabama for our Think Tank Symposium. This day and a half event is designed to motivate and teach you the “Seen and the Unseen” of Becoming Your Own Banker.

The cost to attend the Think Tank Symposium is $500 per person or $600 per couple (spouses only, please). Guest speakers will include:

- Jeffrey Tucker the editor of www.mises.org.

Of course you will hear from Nelson Nash, and IBC experts including: Dwayne Burnell - the author of A Path to Financial Peace of Mind, Ray Poteet, Tim Yurek, Mary Lyons, Rocky Nystrom, Kim Butler, Todd Langford of Truth Concepts and others.

We will also have a sample of Mutual Life Company Representatives available for questions and support. Breakout sessions will be offered for those that want more time with MTL, AUL, SML of NY, and Truth Concepts.

A sample of topics that will be presented and discussed include:

- The “Seen and the Unseen” of IBC
- Privatized banking, a new alternative to bankruptcy
- Agents: Secrets to breaking down resistance to Becoming Your Own Banker
- Charitable Use of Permanent Whole Life
- “A Practical Application of IBC”
- Agents: How to sell and effectively use the book Becoming Your Own Banker

Where: Sheraton Birmingham, 2101 Richard Arrington Jr. Blvd, North, Birmingham, AL 35203

When: Wednesday February 9, 2011 at 1:00 PM CST -to- Thursday February 10, 2011 at 5:00 PM CST

Hotel Accommodations are available at the Sheraton Birmingham (the conference site) at a special rate of $92.00 per night when you reserve with the Infinite Banking Concepts block. Call (205) 324-5000 to reserve your reservations online.

A free airport shuttle is available from the Birmingham Shuttlesworth International Airport (BHM) to the hotel. Please confirm your flight information when you reserve your room.

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.
www.infinitebanking.org/store.php

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