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

The great missionary, like the great artist, is able to convince some people of the truth of ideas they already half hold, but have been impeded by propaganda or restraints from adopting. Thus he liberates them to become what they have partly wanted to be all along, and so they move in the new direction not only without regrets but with joy.

-- John U. Nef

The ultimate result of shielding men from the effects of folly is to fill the world with fools.

-- Herbert Spencer

Nelson put the following together in 2009

The U.S. Post Service was established in 1775. *The Government has had 234 years to get it right and it is BROKE.*

Social Security was established in 1935. *The Government has had 74 years to get it right and it is BROKE.*

Fannie Mae was established in 1938. *The Government has had 71 years to get it right and it is BROKE.*

War on Poverty started in 1964. *The Government has had 45 years to get it right; $1 trillion of our money is confiscated each year and transferred to "the poor." They want MORE.*

Medicare and Medicaid were established in 1965. *The Government has had 44 years to get it right and they are BROKE.*

Freddie Mac was established in 1970. *The Government has had 39 years to get it right and it is BROKE.*

The Department of Energy was created in 1977 to lessen our dependence on foreign oil. It has ballooned to 16,000 employees with a budget of $24 billion a year and we import more oil than ever before. *The Government has had 32 years to get it right and it is an abysmal FAILURE.*

The Government has FAILED in every "government service" they have shoved down our throats while overspending our tax dollars.

Now, let's see -- you want to trust these folks with your plans for your retirement through tax-qualified plans !!?? Who has the problem here?

And, you look to these folks to educate your children?

- Nelson Nash

Most know what The Infinite Banking Concept® is, but do not know what we do.

We receive phone calls and emails daily from interested people (primarily financial planners and insurance agents) asking what is that we do and what do we hope to accomplish. Here are some of my frequent answers:

1. We are not a FMO (Field Marketing Organization);

2. We are not an IMO (Insurance Marketing Organization);

3. We are not a Multi-Level-Marketing Organization;

4. We do not have affiliates;

5. We do not endorse IBC as a marketing or sales system strictly to sell life insurance (especially any form of Universal Life!!).

So, who are we and what do we do?

Based on the above responses, I thought it necessary to publish our mission statement:

We endeavor to educate the American consumer in an age-old, practical financial philosophy, with the help of an educated financial services industry, in order to promote free enterprise through the practice of privatized banking by use of dividend-paying whole life insurance. We believe that this process will create a true savings and banking vehicle that will help enable the consumer to control their financial environment. We also believe that use of privatized banking through participating whole life insurance policies will help minimize the role and significance of the Federal Government in our financial lives.

- David Stearns

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

The Education Bubble Is Fuel for Revolt

by Joshua Fulton on February 15, 2011

Would you like your college education to be free? Sure, who wouldn't? Well, the people of Tunisia and Egypt are learning that whenever the government supplies something, it is never really "free."

In Tunisia, "free" university education is guaranteed to anyone who passes the government's exams at the end of high school. Largely as a result of this, the number of Tunisians who graduated college more than tripled in the last ten years. This may sound like a good thing, but it has produced a glut of graduates.

Fifty-Seven percent of young Tunisians entering the labor market are college educated. This is while only 30 percent of Americans earn a college degree by the time they are 27. Recent Tunisian college grads have an unemployment rate approximately three times higher than the national average of 15 percent. This is up ninefold from 1994.

The reason for this is not necessarily because having a college education hinders people in getting a job, but because so many college grads are entering the labor market at a time when there are few jobs.

Additionally, government domination of the educational system discourages economic growth. The Tunisian Ministry of Education decides what major students will have. Students are not allowed to change fields during their course of study. This control reduces the type of expertise necessary to create successful businesses.

The Tunisian educational system is also enormously expensive. Of Tunisia's GDP, 7.2 percent is spent on education, more than any European or North American country beside Denmark and Iceland, which also spends 7.2 percent of its GDP on education. Tunisia's educational results, however, appear to be horrible. A 2002 UNESCO report puts its graduation rate at about 30 percent.

Having such a large number of unemployed youths can be dangerous. As George Mason University sociologist Jack A. Goldstone notes, "Educated youth have been in the vanguard of rebellions against authority certainly since the French Revolution and in some cases even earlier."

In fact, the Tunisian protests began after a recent graduate killed himself because government authorities confiscated his fruit stand when they discovered he did not have an "official" permit. The BBC reported that most of the early protesters were unemployed recent graduates.

Like Tunisia, Egypt also has a massive youth-unemployment problem. Unsurprisingly, it also has a system of "free" college education.

In Egypt, enrollment in tertiary education increased from 14 percent in 1990 to approximately 35 percent in 2005. Yet this has not helped the unemployment rate among recent grads. The national Egyptian unemployment rate is 9.4 percent, comparable to the United States, but the unemployment rate for people between the ages of 15 and 29 is 87.2 percent. College graduates, largely because of their age, have a ten times higher unemployment rate than for those who did not attend college.

The Egyptian government also rigidly controls the educational system, just like in Tunisia. A centralized government committee controls decisions regarding curriculum, program development, and deployment of faculty and staff for institutions of higher learning across the entire country. Private universities were only legalized in 1992, and enrollment is very small.

In Egypt, educational expenditures were 3.7 percent of GDP in 2007. By most accounts the Egyptian education system is underfunded. Its educational standards were called "abysmal" by the Economist. Fewer than half of all students graduate, and many universities are viewed as diploma mills.

Although the Egyptian government may have avoided some of the economic costs of "free" higher education that the Tunisian government has incurred, it has not avoided the social costs.

We, in America, might not be as far away from the problems of Tunisia and Egypt as some may be inclined to think.

From 1997 to 2007, full-time enrollment in US tertiary education increased 34 percent. The average college student graduates with $24,000 in debt, a 40 percent real increase from 1997. In 2008, only 57 percent of students enrolled in a four year college graduated within six years. The unemployment rate for 16 to 24-year-olds is 52 percent. The underemployed as a group may be as large as the unemployed in America. For example, in 1970 only 3 percent of mail carriers had a bachelor's degree, while today the number is 12 percent.

Although our case may not be as extreme as that of Tunisia or Egypt, we are headed in the same direction. And just like in Tunisia and Egypt, our education bubble is fueled by governmental policy.

Government accreditation laws keep potential institutions of higher education out of the market, which allows the institutions already in the market to raise their prices. Accreditation institutions can also force institutions of higher education to make changes that increase costs. For instance, the American Bar Association forced the University of Colorado Law School to increase the number of electrical outlets in the library and to construct an instructional court room, which the university claimed caused them to increase tuition.

Government aid also helps institutions of higher education inflate prices. For instance, although the cost of higher education in real dollars increased by 68 percent between 1986 and 2006, when increased government aid is accounted for the real cost to the student increased by only 29 percent. The ceiling of how much students are able to pay is artificially raised, allowing the colleges to charge more.

Also, if a student defaults on a loan backed by the government, which is by far the most common kind of loan, the lender does not bear the loss, the government does. This obviously encourages the lenders to lend more freely than they otherwise would. Enormous losses have been socialized. There is currently $730 billion of outstanding student-loan debt, and the overwhelming majority of losses will be borne by the government if it is not repaid. Only 40 percent of all student debt is being actively repaid.

There are more causes to the revolutions in Tunisia and Egypt than just the higher-education bubble, but the effect it has had cannot be ignored. We could be bringing ourselves dangerously close to the point when all the people of our country have to learn, one way or another, that nothing the government provides is ever free.

Josh Fulton is currently pursuing his MFA in creative writing at UNC, Wilmington where he is also a teaching assistant. He's been published in Liberty, The North American Review, USA Today.com, NPR.com and elsewhere. He is the founder of the UNC, Wilmington Libertarians, and is running for city council in Wilmington, NC. See his website. Send him mail. See Joshua Fulton's article archives.

The Political Economy of Government Employee Unions

by Thomas J. DiLorenzo on February 24, 2011

The main reason why so many state and local governments are bankrupt, or on the verge of bankruptcy, is the combination of government-run monopolies and government-employee unions. Government-employee unions have vastly more power than do private-sector unions because the entities they work for are typically monopolies.

When the employees of a grocery store, for example, go on strike and shut down the store, consumers can simply shop elsewhere, and the grocery-store management is perfectly free to hire replacement workers. In contrast, when a city teachers' or garbage-truck drivers' union goes on strike, there is no school and no garbage collection as long as the strike goes on. In addition, teachers' tenure (typically after two or three years in government schools) and civil-service regulations make it extremely costly if not virtually impossible to hire replacement workers.

Thus, when government bureaucrats go on strike they have the ability to completely shut down the entire "industry" they "work" in indefinitely. The taxpayers will complain bitterly about the absence of schools and garbage collection, forcing the mayor, governor, or city councillors to quickly cave in to the union's demands to avoid risking the loss of their own jobs due to voter dissatisfaction. This process is the primary reason why, in general, the expenses of state and local governments have skyrocketed year in and year out, while the "production" of government employees declines.

For decades, researchers have noted that the more money that is spent per pupil in the government schools, the worse is the performance of the students. Similar outcomes are prevalent in all other areas of government "service." As Milton Friedman once wrote, government bureaucracies — especially unionized ones — are like economic black holes where increased "inputs" lead to declining "outputs." The more that is spent on government schools, the less educated are the students. The more that is spent on welfare, the more poverty there is, and so on. This of course is the exact opposite of normal economic life in the private sector, where increased inputs lead to more products and services, not fewer.

Thirty years ago, the economist Sharon Smith was publishing research showing that government employees were paid as much as 40 percent more than comparable private-sector employees. If anything, that wage premium has likely increased.

The enormous power of government-employee unions effectively transfers the power to tax from voters to the unions. Because government-employee unions can so easily force elected officials to raise taxes to meet their "demands," it is they, not the voters, who control the rate of taxation within a political jurisdiction. They are the beneficiaries of a particular form of taxation without representation (not that taxation with representation is much better). This is why some states have laws prohibiting strikes by government-employee unions. (The unions often strike anyway.)

Politicians are caught in a political bind by government-employee unions: if they cave in to their wage demands and raise taxes to finance them, then they increase the chances of being kicked out of office themselves in the next election. The "solution" to this dilemma has been to offer government-employee unions moderate wage increases but spectacular pension promises. This allows politicians to pander to the unions but defer the costs to the future, long after the panderers are retired from politics.

As taxpayers in California, Wisconsin, Indiana, and many other states are realizing, the future has arrived. The Wall Street Journal reports that state and local governments in the United States currently have $3.5 trillion in unfunded pension liabilities. They must either raise taxes dramatically to fund these liabilities, as some have already done, or drastically cut back or eliminate government-employee pensions.

Government-employee unions are primarily interested in maximizing the profits of the union. Consequently, they use civil-service regulations as a tool to protect the job of every last government bureaucrat, no matter how incompetent or irresponsible he or she is. Fewer employed bureaucrats means fewer union dues are being paid. Thus, it is almost guaranteed that government-employee unions will challenge in court the attempted dismissal of all bureaucrats save the occasional ones who are accused of actual criminal behavior. This means that firing an incompetent government school teacher, for example, can take months, or years, of legal wrangling.

Politicians discovered long ago that the most convenient response to this dilemma is to actually reward the incompetent bureaucrat with an administrative job that he or she will gladly accept, along with its higher pay and perks. That solves the problem of parents who complain that their children's math teacher cannot do math, while eliminating the possibility of a lawsuit by the union. This is why government-school administrative offices are bloated bureaucratic monstrosities filled with teachers who can't teach and are given the responsibilities of "administering" the entire school system instead. No private-sector school could survive with such a perverse policy.

Government-employee unions are also champions of "featherbedding" — the union practice of forcing employers to hire more than the number of people necessary to do the job. If this occurs in the private sector, the higher wage costs will make the firm less competitive and less profitable. It may even go bankrupt, as the heavily unionized American steel, automobile, and textile industries learned decades ago.

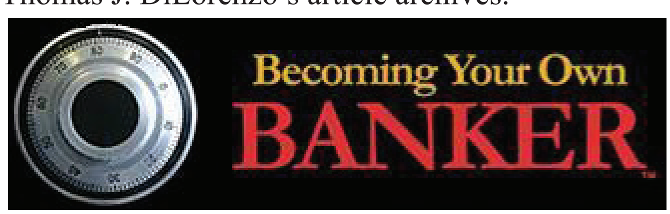
No such thing happens in government, where there are no profit-and-loss statements, in an accounting sense, and most agencies are monopolies anyway. Featherbedding in the government sector is viewed as a benefit to both politicians and unions — but certainly not to taxpayers. The unions collect more union dues with more government employees, while the politicians get to hand out more patronage jobs. Each patronage job is usually worth two or more votes, since the government employee can always be counted on to get at least one family member or close friend to vote for the politician who gave him the job. This is why, in the vast literature showing the superior efficiency of private versus government enterprises, government almost always has higher labor costs for the same functions.

Every government-employee union is a political machine that lobbies relentlessly for higher taxes, increased government spending, more featherbedding, and more pension promises – while demonizing hesitant taxpayers as uncaring enemies of children, the elderly, and the poor (who are purportedly "served" by the government bureaucrats the unions represent).

It is the old socialist trick that Frédéric Bastiat wrote about in his famous essay, The Law: The unions view advocates of school privatization, not as legitimate critics of a failed system, but as haters of children. And the unions treat critics of the welfare state, not as persons concerned with the destruction of the work ethic and of the family that has been caused by the welfare state, but as enemies of the poor.

This charade is over. American taxpayers finally seem to be aware that they are the servants, not the masters, of government at all levels. Government-employee unions have played a key role in causing bankruptcy in most American states, and their pleas for more bailouts financed by endless tax increases are finally ringing hollow.

Thomas DiLorenzo is professor of economics at Loyola University Maryland and a member of the senior faculty of the Mises Institute. He will be teaching Competition, Monopoly, and Antitrust: The Austrian Perspective at the Mises Academy this spring. He is the author of The Real Lincoln; Lincoln Unmasked; How Capitalism Saved America; and Hamilton's Curse: How Jefferson's Archenemy Betrayed the American Revolution — And What It Means for Americans Today. Send him mail. See Thomas J. DiLorenzo's article archives.



Tenth 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 10: *Becoming Your Own Banker®*

Content: Page 20, Becoming Your Own Banker – The Infinite Banking Concept®, Fifth Edition.

Continuing our study from lesson 9 of The First National Bank of Midland, TX, it is apparent from the report of the December issue of the drilling magazine that a number of the directors of the bank were in the oil business.

There was quite an aberration in that business at that time. Many people had to wait in line for hours to get gasoline. In those days I was still flying with the Alabama Army National Guard and on drill weekends we flew patrol over the Interstate Highways for convoys of gasoline trucks. It was an interesting time. The best that I can remember it lasted a couple of years.

So these directors of the bank were making loans to themselves to invest in the oil business where they were going to "make a killing" and not bothering to repay the loans. They were listening to pseudo-economists that were telling them, "Real money is natural resources like land, timber, coal, minerals, oil, etc. Borrow all the money from your bank that you can and put it in the oil business! You can really get rich!"

When the oil business returned to normal these folks lost their oil business and their banking business – the best business in the world! Had they repaid their loans with interest (preferably with greater than normal interest) their bank would still have been in operation but greed prevailed and "did them in." All banks that went bankrupt during that period were just a variation of what happened here.

People behave on the basis of their understanding of things and are strongly influenced by the idea of getting rich quickly. Read Extraordinary Popular Delusions and the Madness of Crowds by Charles Mackay. It is a collection of stories of weird behavior of people down through history. People listen to "financial experts" and my own observation is that we have more financial geniuses per square foot today than in all of history combined! If those pseudo-economists were correct that "real money is oil" then tell me how much oil does Switzerland produce? None, but those folks have known something about banking for a very long time. Banking is the best business in the world.

So, you have now seen two examples of how a business can be destroyed -- the grocery business by taking groceries out the back door of your store and the banking business by making loans to yourself and not paying them back.

Again, I warn you, if you want to kill the best business in the world then go to it. But your blood will not be on my hands. You have been adequately warned.

You must admit that getting into the banking business the way we have studied in lesson 9 & 10 is very costly and time consuming. It will be a long time before you show a profit, probably as much as 10 years. But it must be extremely profitable over the long haul for people to go through the gory mess you have just studied.

There is a much easier way to accomplish it and the mechanism has been around for over 200 years. It is tried and true. It is called participating (i.e. dividend-paying) whole life insurance. The problem is that very few people know how the business works, including the home-office folks at life insurance companies.

At this point, it will help if you understand the word, "co-generation," a term used in the production of electrical power. Most everyone knows that this power is produced in plants using fossil fuels, nuclear fuels or water to turn turbines. But, there is another source of power that is significant – the wood products plants – paper mills and sawmills. Trees are harvested for the wood they contain but the bark on the outside of the tree and the sawdust from sawing lumber has little economic value. But, these things make a very good fire, and thus produce steam to turn dynamos that produce electricity. Every paper mill and all large sawmills have a "co-generation plant."

Suppose that you own a paper mill and your co-generation plant can produce 500% of your needs for electrical power. What do you do with the surplus? You can sell it, of course! But, you don't have to erect power lines and get a sales force to sell it. You simply understand the distribution system is already there and you simply tie into that system and sell it to them!

Creating your own banking system through the use of dividend-paying life insurance is much like co-generation. All the ingredients are already there in place. All you have to do is understand what is going on in such insurance plans and tap into the system.

Nelson Nash's live Events for the next two months

Nelson live in Austin, TX, Thursday, Mar 3 - Friday Mar 4, contact Paul McDonald, 512-459-5966, paul@econwbs.com

Nelson live in Fort Worth, TX, Friday, Mar 11, contact James Neathery, 817-790-0405, jcneat@gmail.com

Nelson live in Chicago, Friday, Mar 18, contact National Private Client Group LLC, 312-957-9400, EXT 403, or email: info@nationalprivate.com

Nelson Live in Dallas, Friday, Apr 1 - Saturday, Apr 2, contact Teresa Kuhn, 512-301-7702, or email tkuhn@safeharborboy.com.

Nelson Live in Chicago, Tuesday, Apr 19, contact Clay Campbell 832-721-2997, or email claycampbellfeg@yahoo.com

Nelson Live in Arlington, TX, Thursday, Apr 21 - Friday, Apr 22, contact Vance Lowe 817-223-4912 or email vance@forars.com

Nelson Live in Columbus, OH, Tuesday, Apr 26, contact Matt Jehn, 614-582-3060, or email matt@jehnfinancial.com

Nelson Live in Boerne, TX, Friday, Apr 29, Saturday Apr 30, contact Janet Sims 830-331-9805, or email janet_sims@financialprocessgroup.com

Nelson's newly added Book Recommendations

The Other Path - The Invisible Revolution in the Third World by Hernando De Soto

Nullifying Tyranny - Creating Moral Communities in an Immoral Society by James Ronald Kennedy and Walter Donald Kennedy

Fiat Money Inflation in France by Andrew Dixon White

Rollback by Thomas E. Woods Jr.

For a complete listing of Nelson's personal library, please refer to our Recommended Reading list on our website: www.infinitebanking.org/books.php

February 2011 IBC Think Tank Symposium

We had a productive and fun time at last month's IBC Think Tank Symposium. I feel sure that all 175 attendees will echo that.

Special thanks to guest speakers *Jeffrey Tucker* from the Mises Institute, and *Harj Gill*, founder of Speed Equity®.

These meetings would not take place without the outstanding support of "IBC regulars," thank you *Robert Murphy, Carlos Lara, Rocky Nystrom, Dwayne Burnell, Tim Yurek, Tony John, and Ray Poteet*.

We try to mix up the subject matter and get some newcomers in front of the audience, I think that all there will agree that these "youngsters" were the highlight of the symposium; thank you *Mary Lyons, Justin Craft and Russ Morgan.*

We tried something new this year, a "vendor area" and vendor breakouts. It worked well and will be a part of future symposiums. Thank you *Mark Creighton of Mutual Trust Life, Wade Borth of American United Life (One America), George Kozol and Marty Smith of Security Mutual Life of New York, and Todd Langford owner of Truth Concepts™* software for your help in making the symposium a success.

Thank you *Paul Cleveland, Tom McFie and Rick Bueter* for sharing your recently published books with us.

P.S. Look for the entire event on DVD next month.