BankNotes - Nelson Nash's Monthly Newsletter - January 2012

Becoming Your Own BANKER

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What Right Looks Like

The 2012 IBC Think Tank *Symposium*

Downtown Birmingham, Alabama

9 - 10 February 2012

http://infinitebanking.org/think-tank-symposium/

The annual IBC Think Tank Symposium is hosted by IBC founder Nelson Nash, and David Stearns, IBC, LLC owner. In this gathering of Infinite Banking enthusiasts we emphasize our sharing approach in spreading the IBC word. Life producers present success stories, case studies and new ideas. The symposium is oriented on training the concept primarily to life producers, but a sizable group of "consumer-practioneers" attend.

This year's Think Tank theme *"What Right Looks Like"* was selected because numerous IBC "experts" are causing confusion and frustration by misinterpreting the concept. To help clear the air, we selected each presentation to capture the true essence of all facets of IBC. We do not want to build a wall around IBC, but want to continue emphasizing that it is an educational journey not a sales system.

There will be a small dose of Austrian Economics, but the majority of the meeting will be devoted to practical application.

The cost is $400 for IBC Think Tank members and $600 for non-members. ***The non-member registration price increases to $700 after January 18th, if you plan on attending, and want the savings, please register before the 18th!***

Symposium speakers include:

Barry Dyke, author of the upcoming book *Pirates of Manhattan II: Highway to Serfdom*, Dwayne Burnell author of *A Path to Financial Peace of Mind,* Rick Bueter, author of *The Great Wall Street Retirement Scam*, Todd Langford of *Truth Concepts*, James Neathery, Tom McFie, Mike Everett, Joe Kane, Mary Lyons, Carlos Lara, and Robert Murphy. Additional speakers will be announced as they are confirmed.

We will use a progressive building-block approach in the symposium where the presentations build on each other.

- Nelson will stress the "*Why of IBC*"
- *Setting the conditions*: Agency, and individual producer organizational IBC promotion and training
- *Approaching the prospective client*
- *Choosing the right product*: The Mutual Insurance Company and the Participating Whole Life Product
- *Designing the optimal policy*: Policy Design
- *Service after the sale*: Client follow-up and loan support
- *Supporting tools* that help IBC producers and their clients (breakout sessions)
- *Panel of agents*, Q&A oriented to covering best practices

We are expanding the agenda to add two hours for breakouts. Breakout presenters will have the opportunity to present twice in 45 minute breakout sessions; once Thursday and once Friday.

John McFie the creator of *The Loan Manager*, a deluxe software program the brings together the multiple elements of loan documentation, amortizations, documents, loan tracking, payment tracking, and reporting into a single application, complete with an easy-to-use interface will demonstrate during the breakout sessions.

Jeff Mendenhall will be holding a breakout session titled *"Faith And Finances*" based on his new book "*Your Economic Destiny*" in it you will learn: Why every one of your church members should be participating in IBC. How to position yourself as the principle-centered "sound money advisor" in your community. How IBC mirrors the core beliefs of the Christian faith and enables Christians to put those core principles into action now. How IBC agents can take a stand for the truth in a world surrounded by economic deceptions that weaken the fabric of America.

If you have not attended Nelson Nash's Live *Becoming Your Own Banker* 10-hour Seminar, please do so before attending the Symposium. A full schedule of Nelson's seminars are provided on our website under the training, live seminars tabs. Additionally, we have scheduled Nelson's seminar on Tuesday night and all day Wednesday (February 7-8) immediately preceding the symposium for those that wish to attend while in Birmingham. The cost for the seminar is $200 per seat, spouses can attend for an additional $50.

Look forward to seeing you in February!

To register and for more information, follow his link: http://infinitebanking.org/think-tank-symposium/

David Stearns

Have an interesting article or quote related to IBC? We gladly accept article submissions as long as premission to reprint is provided. Send submissions for review and possible inclusion in BankNotes to david@infinitebanking.org.

The IBC Solution

by L. Carlos Lara

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Life, as we all know, is difficult. Each of the twenty-four hours of every day is filled with uncertainty and a host of stress filled problems of one kind or another. In fact, the demand for stress relief from life's problems is so large that it has spawned a multitude of billion dollar industries. The books, articles, and studies that have been written on the subject of human anxiety are innumerable going as far as categorizing and ranking our fears from the least to the greatest. Not surprisingly, what we find when we read these reports is that the greatest fears center mostly on money issues. Even above the fear of death is the fear of being without money or the lack of financial security. Ask the average American to list his greatest fear and almost one hundred percent of the time the fear of impoverishment tops the list.

These facts present a unique situation for financial professionals. After all, these are the men and women who speak to people about their money and do so in an advisory capacity. In 2011 the greatest fear that people are known to have, the fear of financial ruin, is now at its highest peak. Consequently, financial professionals are faced with the daunting task of helping clients navigate through the most devastating financial crises in history. This is an awesome responsibility with critical consequences hinging on the advice that is given. Since the financial crisis, which started in 2008, huge losses have been suffered by millions of individuals either by way of the stock market's erratic behavior, or by the collapse of the housing market. Many have lost their jobs and remain unable to find employment. Countless others have lost their businesses and have gone broke. Today, there seems to be nowhere left to put one's money where it safe. For the older generation, there is the ever-present fear of running out of money while the younger generation worries about how they will ever be able to save any money at all. The result is a nation of people who are skeptical, cynical and mistrusting. For this reason the general public is showing an interest in economic affairs that has not surfaced in decades. People everywhere are paying greater attention to issues dealing with monetary policy and are eager to learn simply because they are in such financial turmoil. Americans need a financial professional who is able to accurately explain to his clients the causes of the financial crisis, its current state and a way of escape. In order to be able to do this, the financial professional must know, unequivocally, that an accurate economic analysis can be found only in an education in Austrian economics.

In this article we want to focus on three fundamental economic explanations that can help financial advisors provide the advice their clients most need right now. These are **inflation, the Federal Reserve** and **Privatized Banking**. Two of them explain the core problem and the third is the solution.

Inflation

One of the most basic pieces for understanding the cause of our current crisis is to have a complete and accurate definition of *inflation*. Armed with this correct understanding, the financial professional can open the mind of a client who has been misled by the traditional definition of inflation as simply the increase in prices. The client needs to hear an accurate explanation of why and how prices rise. Without this proper understanding the money dilemma can never be deciphered and remains a mystery. An understanding of savings, investments, rates of interest and returns become untenable without this proper explanation. Once again, only Austrian economics provides the true meaning. If the financial professional can accurately explain that inflation is a form of *indirect tax* he becomes rare among his peers. If he can demonstrate to his clients that the tax is hidden and why, he will certainly be set apart from the rest of the professionals in the financial services industry. The client will soon realize that he is in the presence of someone who truly understands how the economy works. In effect, what the advisor will be exposing is that inflation is deliberately set in motion by the few in power at the expense of everyone else in society. He is exposing a practice that is not only morally wrong, but, if continued, will ultimately destroy the economy itself. The importance of this cannot be overstated. Not only because inflation is so disastrous to the client's own situation, but by the simple fact that only one man in a million is aware of it. Ludwig von Mises, the greatest member of the Austrian School of Economics in the 20th century explains it this way:

Everything that is being done by a government against the purchasing power of the monetary unit is, under present conditions, done against the middle classes and the working classes of the population. Only these people don't know it. And this is the tragedy…

What I want to point out is that the greatest problem today is precisely this, although the people don't realize it. The danger is due to the fact that people consider inflation as something that hurts other people. They realize very well that they too have to suffer because the prices of the commodities they are buying go up continually, but they don't realize fully that the greatest danger for them is precisely the progress of inflation and the effect it will have on the value of their savings.

…We should not forget that over and above the consequences of destroying a country's monetary standard, there is the danger that depriving the masses of their savings will make them desperate.[1]

The Federal Reserve

Let's be clear. Inflation is the increase of the money supply. High prices are the *effects* of the increases in the quantity of money. More money in circulation simply lowers the value of the money and bids up prices on everything. The net result for society is always disastrous yet the process of inflation has been around since the first coin was minted. Every time inflation is mysteriously set in motion it creates distress and confusion among the people.

The word "inflation" originally applied solely to the quantity of money. It meant that the volume of *money was inflated, blown up, overextended. It is not mere pedantry to insist that the word should be used only in its original meaning. To use it to mean "a rise in prices" is to deflect attention away from the real cause of inflation and the real cure for it.*[2]

Who or what sets inflation in motion? Long ago Caesar began inflating the Roman coin when he first discovered that tax revenues were insufficient to pay for all of Rome's expenditures. To solve his deficit problem, Caesar resorted to clipping the edges of the coins in order to make more coins. He debased and increased the money supply to solve his problem, but did it at the expense of Roman society. In our modern times the federal government and the Federal Reserve employ the same basic mechanism used by Caesar: In addition to what the government spends through direct taxation and borrowing (bonds) from the private sector, the government also finances some of its purchases through the creation of new money supplied by the Federal Reserve. The process is not as overt as Caesar's methods, but the underlying economics are essentially the same. All holders of dollar bills ultimately pay the cost through the hidden tax of rising prices. In other words, in addition to their direct tax payments and whatever money they directly lend to the government by buying Treasury bonds, the public also pays in the form of the rising cost of living.

The financial advisor must be ready to explain how the government justifies this massive transfer of wealth from the public. The answer, of course, is Keynesian economics. Made famous by John Maynard Keynes in 1936, Keynesian economics actually advocates the increase of deficit spending (borrowing). According to his theory, and one that politicians enthusiastically embraced, *spending* could boost aggregate demand and would eventually lead to the elimination of unemployment. The implication is that if only we could have Christmas everyday of the year, we would never have recessions. In the Keynesian view, the old-fashioned virtue of thrift—living below one's means—is positively harmful during a recession. This, of course, is just the opposite of what we should be doing. Nevertheless, whether liberal or conservative, our universities and financial press today are thoroughly infused with the Keynesian mindset. This is precisely why we see the Federal Reserve continuing the creation of more money (quantitative easing). An economy that is already on its knees is taking further blows and having more of its resources siphoned away from the productive sector by an inefficient political process.

Once the financial professional is able to understand the basic mechanics of inflation and can relay them over to his clients, they in turn will able to see why politicians are so reluctant to cut spending and balance the budget. Unlike a private household or corporation, there is no danger of insolvency for the government, so long as it can rely on the Federal Reserve to create new dollar bills. Of course greater inflation of the money supply will lead to rising prices and soaring interest rates, and so the Federal Reserve must exercise some restraint. Nonetheless, the overall trend is clear: the government is making no real effort to pay off any of the mounting debt which now stands at over 14 trillion, and is seeking legislation to borrow even more. This symbiotic relationship that exists between the Federal Reserve and our political system has led us to the brink whereby the U.S. dollar could actually collapse. Is there no way out of this madness?

Privatized Banking

What if there was a solution? Would your client hesitate one moment in wanting to know the answer? Of course not! No one would. Here is where the financial professional makes the case for the *Sound Money Solution.*

It is impossible to grasp the meaning of the idea of "sound money" if one does not realize that it was devised as an instrument for the protection of civil liberties against despotic inroads on the part of governments. Ideologically it belongs in the same class with political constitutions and bills of rights.[3]

The obvious cure for rampant price inflation and economic crises is to remove political interference from the institutions of money and banking. When money is once again a commodity produced by the market, and when bankers receive no special privileges exempting them from their contractual obligations, people will once again be able to lean heavily on a stable medium of exchange for their financial planning. We will have *sound money.* However, a society can only return to sound money when enough people demand it of their government. That is why education is the first and most important step—people need to understand the importance of sound money, and the dangers of fiat money and central banking. Everyone knows our current financial system is sick, but only people steeped in Austrian economics can offer the correct diagnosis and cure. Unfortunately, there are also many powerful people and institutions who benefit from the status quo. But, the practical suggestions for how our society could move, bit by bit, back towards the ultimate goal of complete freedom in money and banking are frequently recommended by those who understand the lessons of the Austrian economists.

Step one of the Sound Money Solution is to tie the dollar back to gold. The reason this is such an important first step is because it stops inflation. Gold cannot be inflated like paper bills. The second step is *privatized banking*: return the institutions of money and banking back to the private sector. The most important result of this step is that the nation's purse strings are removed from the grasp of government officials and big banks. If step one and step two can be accomplished then there would be no need for a central bank; step three would eliminate it. In his book *End the Fed* Ron Paul spells out that our current financial system is untenable as he explains:

There is another path, but it requires a complete turnaround. It requires only the political will to unplug the machinery of the Fed. Contrary to what people might think at first, this will not mean an end to the financial system, as we know it. In a post-Fed world, we will still have the dollar, banks, ATMs, online trading, Web-based systems of fund transfer—none of this is going anywhere…

When we unplug the Fed, the dollar will stop its long depreciating trend, international currency values will stop fluctuating wildly, banking will no longer be a dice game, and financial power will cease to gravitate toward a small circle of government-connected insiders.[4]

Without the Federal Reserve continuing to expand the money supply and grow the size of government, our national expenditures would be greatly reduced. Our taxes would necessarily come down. This in turn would allow our savings to go up: since it is savings that fuels investments, production and a healthy economy would return.

Obviously, government officials will only relinquish their vast powers in this realm when public opinion demands it. Therefore, we need more people behind our effort. Fortunately, the return to sound money does not require the "conversion" of the entire population, or even a majority. Many Austrians believe that if they could reach just a solid 10 percent of the population, especially from key positions in academia, the media, and the business community, then this group could turn the tide. This is why the role of the financial professional is so important. Once he discovers that the Infinite Banking Concept (IBC) provides a powerful contribution to the Sound Money Solution while at the same time helping each of his clients, the goal of reaching the 10 percent actually becomes possible.

The Sound Money Solution's key action is in Step 2—*Privatized Banking*. Nelson Nash, the originator of the IBC concept, discovered that a traditional, centuries old, financial product—dividend-paying whole life insurance—can be used to immediately implement a form of privatized banking, one household at a time. Equally important, when major purchases are financed through whole life policy loans, this does *not* expand the money supply. This is a crucial point that should not be taken lightly. Nash has shown that the proper use of dividend-paying whole life insurance could eventually allow someone to "become his own banker," meaning that he could obtain his lifetime financing needs (for cars, children's education, retirement income, and even house purchases) from policy loans and dividend payments, rather than from traditional banks or other lending institutions. This means that the bondage under the current debt-based system can finally be broken and Americans will not be nearly as vulnerable to the credit whiplashes unleashed by the Federal Reserve. In essence, whole life insurance can allow Americans to effectively secede from the current fractional reserve banking system. Unlike other potential strategies for "starving the beast," the practice of IBC makes sense at an individual household level, in *addition* to its social benefits of muting inflationary credit expansion.

What is amazing is that a revolution or uprising is not required in order to change the insanity of the world around us. It can be implemented regardless of what government and the politically connected are doing right now. There is no need to picket the streets, hold huge rallies, or storm Washington demanding changes. Not a single shot needs to be fired. This solution's only requirement is the action of a single person acting in a manner to help only himself, but in so acting ultimately he helps all of society. It is the most natural and innocent action a human being can do, and yet the idea is so powerful that as it spreads from one individual to another, a massive movement silently develops and gains velocity. Once it spreads to the masses, nothing will be able to prevail against it! Government and destructive monetary policy will be forced to change. History will be recorded differently.

Conclusion

The financial professional who is versed in Austrian economics and is himself an IBC practitioner plays a pivotal role in spreading the message and building the 10 percent. As more households begin practicing IBC, we will see three major effects: First, the idea of Privatized Banking—one of the planks in the Sound Money Solution—will seem less farfetched. Second, a growing number of households will become financially *independent*. Third, as more people add sizeable life insurance policies to their long-term financial plans, the public agitation against inflationary policies and deficit spending will be stronger. A portion of the nation's financial resources will be transferred out of the volatile commercial banking sector and into the conservative, solid insurance sector. The practitioners of IBC will find it in their great personal interest to aid the Austrians and other champions of sound money, because the value of their insurance policies would be enhanced with a stronger dollar.

All this requires *action*. Not only does the switch to insurance financing make sense at the individual level, but it also contributes to the ultimate solution—to remove government intervention from money and banking altogether. The thing we must never forget is that it is the masses that determine the course of history, but its initial movement must start with the individual. That means you and me.

Bibliography

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2. Henry Hazlitt, What You Should Know About Inflation (New York: D Van Nostrand Company, Inc., 1965), p. 2

3. Ludwig von Mises, *The Theory of Money and Credit*, p. 454

4. Ron Paul, *End the Fed*, (New York, Grand Central Publishing, 2009),p.202 and 203

5. L. Carlos Lara and Robert P. Murphy, *How Privatized Banking Really Works*, (Sheridan Books Inc, Ann Arbor Michigan, 2010)

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Fractional Reserve Banking

by Murray N. Rothbard

We have already described one part of the contemporary flight from sound, free market money to statized and inflated money: the abolition of the gold standard by Franklin Roosevelt in 1933, and the substitution of fiat paper tickets by the Federal Reserve as our "monetary standard." Another crucial part of this process was the federal cartelization of the nation's banks through the creation of the Federal Reserve System in 1913.

Banking is a particularly arcane part of the economic system; one of the problems is that the word "bank" covers many different activities, with very different implications. During the Renaissance era, the Medicis in Italy and the Fuggers in Germany, were "bankers"; their banking, however, was not only private but also began at least as a legitimate, non-inflationary, and highly productive activity. Essentially, these were "merchant-bankers," who started as prominent merchants. In the course of their trade, the merchants began to extend credit to their customers, and in the case of these great banking families, the credit or "banking" part of their operations eventually overshadowed their mercantile activities. These firms lent money out of their own profits and savings, and earned interest from the loans. Hence, they were channels for the productive investment of their own savings.

To the extent that banks lend their own savings, or mobilize the savings of others, their activities are productive and unexceptionable. Even in our current commercial banking system, if I buy a $10,000 CD ("certificate of deposit") redeemable in six months, earning a certain fixed interest return, I am taking my savings and lending it to a bank, which in turn lends it out at a higher interest rate, the differential being the bank's earnings for the function of channeling savings into the hands of credit-worthy or productive borrowers. There is no problem with this process.

The same is even true of the great "investment banking" houses, which developed as industrial capitalism flowered in the nineteenth century. Investment bankers would take their own capital, or capital invested or loaned by others, to underwrite corporations gathering capital by selling securities to stockholders and creditors. The problem with the investment bankers is that one of their major fields of investment was the underwriting of government bonds, which plunged them hip-deep into politics, giving them a powerful incentive for pressuring and manipulating governments, so that taxes would be levied to pay off their and their clients' government bonds. Hence, the powerful and baleful political influence of investment bankers in the nineteenth and twentieth centuries: in particular, the Rothschilds in Western Europe, and Jay Cooke and the House of Morgan in the United States.

By the late nineteenth century, the Morgans took the lead in trying to pressure the U.S. government to cartelize industries they were interested in – first railroads and then manufacturing: to protect these industries from the winds of free competition, and to use the power of government to enable these industries to restrict production and raise prices.

In particular, the investment bankers acted as a ginger group to work for the cartelization of commercial banks. To some extent, commercial bankers lend out their own capital and money acquired by CDs. But most commercial banking is "deposit banking" based on a gigantic scam: the idea, which most depositors believe, that their money is down at the bank, ready to be redeemed in cash at any time. If Jim has a checking account of $1,000 at a local bank, Jim knows that this is a "demand deposit," that is, that the bank pledges to pay him $1,000 in cash, on demand, anytime he wishes to "get his money out." Naturally, the Jims of this world are convinced that their money is safely there, in the bank, for them to take out at any time. Hence, they think of their checking account as equivalent to a warehouse receipt. If they put a chair in a warehouse before going on a trip, they expect to get the chair back whenever they present the receipt. Unfortunately, while banks depend on the warehouse analogy, the depositors are systematically deluded. Their money ain't there.

An honest warehouse makes sure that the goods entrusted to its care are there, in its storeroom or vault. But banks operate very differently, at least since the days of such deposit banks as the Banks of Amsterdam and Hamburg in the seventeenth century, which indeed acted as warehouses and backed all of their receipts fully by the assets deposited, e.g., gold and silver. This honest deposit or "giro" banking is called "100 percent reserve" banking. Ever since, banks have habitually created warehouse receipts (originally bank notes and now deposits) out of thin air. Essentially, they are counterfeiters of fake warehouse-receipts to cash or standard money, which circulate as if they were genuine, fully backed notes or checking accounts. Banks make money by literally creating money out of thin air, nowadays exclusively deposits rather than bank notes. This sort of swindling or counterfeiting is dignified by the term "fractional-reserve banking," which means that bank deposits are backed by only a small fraction of the cash they promise to have at hand and redeem. (Right now, in the United States, this minimum fraction is fixed by the Federal Reserve System at 10 percent.)

Fractional Reserve Banking

Let's see how the fractional reserve process works, in the absence of a central bank. I set up a Rothbard Bank, and invest $1,000 of cash (whether gold or government paper does not matter here). Then I "lend out" $10,000 to someone, either for consumer spending or to invest in his business. How can I "lend out" far more than I have? Ahh, that's the magic of the "fraction" in the fractional reserve. I simply open up a checking account of $10,000 which I am happy to lend to Mr. Jones. Why does Jones borrow from me? Well, for one thing, I can charge a lower rate of interest than savers would. I don't have to save up the money myself, but simply can counterfeit it out of thin air. (In the nineteenth century, I would have been able to issue bank notes, but the Federal Reserve now monopolizes note issues.) Since demand deposits at the Rothbard Bank function as equivalent to cash, the nation's money supply has just, by magic, increased by $10,000. The inflationary, counterfeiting process is under way.

The nineteenth-century English economist Thomas Tooke correctly stated that "free trade in banking is tantamount to free trade in swindling." But under freedom, and without government support, there are some severe hitches in this counterfeiting process, or in what has been termed "free banking." First: why should anyone trust me? Why should anyone accept the checking deposits of the Rothbard Bank? But second, even if I were trusted, and I were able to con my way into the trust of the gullible, there is another severe problem, caused by the fact that the banking system is competitive, with free entry into the field. After all, the Rothbard Bank is limited in its clientele. After Jones borrows checking deposits from me, he is going to spend it. Why else pay money for a loan? Sooner or later, the money he spends, whether for a vacation, or for expanding his business, will be spent on the goods or services of clients of some other bank, say the Rockwell Bank. The Rockwell Bank is not particularly interested in holding checking accounts on my bank; it wants reserves so that it can pyramid its own counterfeiting on top of cash reserves. And so if, to make the case simple, the Rockwell Bank gets a $10,000 check on the Rothbard Bank, it is going to demand cash so that it can do some inflationary counterfeit-pyramiding of its own. But, I, of course, can't pay the $10,000, so I'm finished. Bankrupt. Found out. By rights, I should be in jail as an embezzler, but at least my phoney checking deposits and I are out of the game, and out of the money supply.

Hence, under free competition, and without government support and enforcement, there will only be limited scope for fractional-reserve counterfeiting. Banks could form cartels to prop each other up, but generally cartels on the market don't work well without government enforcement, without the government cracking down on competitors who insist on busting the cartel; in this case, forcing competing banks to pay up.

Central Banking

Hence the drive by the bankers themselves to get the government to cartelize their industry by means of a central bank. Central Banking began with the Bank of England in the 1690s, spread to the rest of the Western world in the eighteenth and nineteenth centuries, and finally was imposed upon the United States by banking cartelists via the Federal Reserve System of 1913. Particularly enthusiastic about the Central Bank were the investment bankers, such as the Morgans, who pioneered the cartel idea, and who by this time had expanded into commercial banking.

In modern central banking, the Central Bank is granted the monopoly of the issue of bank notes (originally written or printed warehouse receipts as opposed to the intangible receipts of bank deposits), which are now identical to the government's paper money and therefore the monetary "standard" in the country. People want to use physical cash as well as bank deposits. If, therefore, I wish to redeem $1,000 in cash from my checking bank, the bank has to go to the Federal Reserve, and draw down its own checking account with the Fed, "buying" $1,000 of Federal Reserve Notes (the cash in the United States today) from the Fed. The Fed, in other words, acts as a bankers' bank. Banks keep checking deposits at the Fed and these deposits constitute their reserves, on which they can and do pyramid ten times the amount in checkbook money.

Here's how the counterfeiting process works in today's world. Let's say that the Federal Reserve, as usual, decides that it wants to expand (i.e., inflate) the money supply. The Federal Reserve decides to go into the market (called the "open market") and purchase an asset. It doesn't really matter what asset it buys; the important point is that it writes out a check. The Fed could, if it wanted to, buy any asset it wished, including corporate stocks, buildings, or foreign currency. In practice, it almost always buys U.S. government securities.

Let's assume that the Fed buys $10,000,000 of U.S. Treasury bills from some "approved" government bond dealer (a small group), say Shearson, Lehman on Wall Street. The Fed writes out a check for $10,000,000, which it gives to Shearson, Lehman in exchange for $10,000,000 in U.S. securities. Where does the Fed get the $10,000,000 to pay Shearson, Lehman? It creates the money out of thin air. Shearson, Lehman can do only one thing with the check: deposit it in its checking account at a commercial bank, say Chase Manhattan. The "money supply" of the country has already increased by $10,000,000; no one else's checking account has decreased at all. There has been a net increase of $10,000,000.

But this is only the beginning of the inflationary, counterfeiting process. For Chase Manhattan is delighted to get a check on the Fed, and rushes down to deposit it in its own checking account at the Fed, which now increases by $10,000,000. But this checking account constitutes the "reserves" of the banks, which have now increased across the nation by $10,000,000. But this means that Chase Manhattan can create deposits based on these reserves, and that, as checks and reserves seep out to other banks (much as the Rothbard Bank deposits did), each one can add its inflationary mite, until the banking system as a whole has increased its demand deposits by $100,000,000, ten times the original purchase of assets by the Fed. The banking system is allowed to keep reserves amounting to 10 percent of its deposits, which means that the "money multiplier" – the amount of deposits the banks can expand on top of reserves – is 10. A purchase of assets of $10 million by the Fed has generated very quickly a tenfold, $100,000,000 increase in the money supply of the banking system as a whole.

Interestingly, all economists agree on the mechanics of this process even though they of course disagree sharply on the moral or economic evaluation of that process. But unfortunately, the general public, not inducted into the mysteries of banking, still persists in thinking that their money remains "in the bank."

Thus, the Federal Reserve and other central banking systems act as giant government creators and enforcers of a banking cartel; the Fed bails out banks in trouble, and it centralizes and coordinates the banking system so that all the banks, whether the Chase Manhattan, or the Rothbard or Rockwell banks, can inflate together. Under free banking, one bank expanding beyond its fellows was in danger of imminent bankruptcy. Now, under the Fed, all banks can expand together and proportionately.

"Deposit Insurance"

But even with the backing of the Fed, fractional reserve banking proved shaky, and so the New Deal, in 1933, added the lie of "bank deposit insurance," using the benign word "insurance" to mask an arrant hoax. When the savings and loan system went down the tubes in the late 1980s, the "deposit insurance" of the federal FSLIC [Federal Savings and Loan Insurance Corporation] was unmasked as sheer fraud. The "insurance" was simply the smoke-and-mirrors term for the unbacked name of the federal government. The poor taxpayers finally bailed out the

S&Ls, but now we are left with the formerly sainted FDIC [Federal Deposit Insurance Corporation], for commercial banks, which is now increasingly seen to be shaky, since the FDIC itself has less than one percent of the huge number of deposits it "insures."

The very idea of "deposit insurance" is a swindle; how does one insure an institution (fractional reserve banking) that is inherently insolvent, and which will fall apart whenever the public finally understands the swindle? Suppose that, tomorrow, the American public suddenly became aware of the banking swindle, and went to the banks tomorrow morning, and, in unison, demanded cash. What would happen? The banks would be instantly insolvent, since they could only muster 10 percent of the cash they owe their befuddled customers. Neither would the enormous tax increase needed to bail everyone out be at all palatable. No: the only thing the Fed could do, and this would be in their power, would be to print enough money to pay off all the bank depositors. Unfortunately, in the present state of the banking system, the result would be an immediate plunge into the horrors of hyperinflation.

Let us suppose that total insured bank deposits are $1,600 billion. Technically, in the case of a run on the banks, the Fed could exercise emergency powers and print $1,600 billion in cash to give to the FDIC to pay off the bank depositors. The problem is that, emboldened at this massive bailout, the depositors would promptly redeposit the new $1,600 billion into the banks, increasing the total bank reserves by $1,600 billion, thus permitting an immediate expansion of the money supply by the banks by tenfold, increasing the total stock of bank money by $16 trillion. Runaway inflation and total destruction of the currency would quickly follow.

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Murray N. Rothbard (1926–1995) was dean of the Austrian School, founder of modern libertarianism, and academic vice president of the Mises Institute. He was also editor – with Lew Rockwell – of The Rothbard-Rockwell Report, and appointed Lew as his literary executor. See his books.

LOOT

by Leonard E. Read*

He sins as much who holds the sack as he who fills it - Gabriel Meurier

Richard Weaver wrote a book entitled, *Ideas Have Consequences*. Ideas do indeed shape our way of life and mold our very being. However, we think in words; and what we mean by the words we use, and what others think we mean by them, may range from the bright lights of creativity to the dark shadows of destruction. The scholarly authors of *The Meaning of Meaning* (Charles Ogden and Ivor Richards) referred to "the tyranny of words," meaning, of course, their misuse and the consequent misunderstanding and confusion. As someone phrased it years ago:

> *I know you believe you understand what you think I said. But I am not sure you realize that what you heard is not what I meant.*

Not only do we need to know the ideas and practice the ways, we also need the words to explain how freedom works its wonders. And what words will best describe and explain freedom's opposite? How does one make it clear that accepting coercively confiscated "benefits" is just as sinful as the confiscation itself? It would seem self-evident that if no one would accept social security payments there would be no governmental plundering to finance the program. And the same is true of thousands of other ignoble schemes.

"He sins as much who holds the sack as he who fills it." The acceptance of plunder is as sinful as the plundering itself. But where are the words to portray the sinful nature of plunder?

Many of us, over the years, have used the words "special privilege" to describe freedom's opposite – the plundering way of life. But these words no longer serve to describe the undesirable; they have lost their derogatory impact.

So widespread is the practice of plunder that what were at one time devised as special grants of political power – and were more or less clearly recognized as such – are now claimed as the inalienable rights of the special class spawned by such privileges. Among pigs at the trough, there is no stigma attached to the specialist; he may indeed be considered more saint than sinner.

So, why not use another word that has a chance of clarifying our meaning? Let's try an acronym – the first letters of several truly definitive words: **L**iving **O**ff **O**thers **T**houghtlessly – **LOOT**!

Looting is an accurate synonym for plundering and still carries a sharp verbal sting which most of us would rather avoid. Nevertheless, many among us today are *thoughtlessly* living off the labor of others

Throughout history there have been looters of this or that variety. But we seem now to be confronted with a *progression* of such harmful behavior. As more and more people have abandoned moral scruples – feathering their nests at the expense of others – looting in its countless forms has more and more become a way of life.

Emerson wrote, "Thought is the seed of action." Honest, moral and sound economic thought results in commendable and creative action; each person serves himself through serving others. But if dishonest, immoral and uneconomic thinking prevails, the results must be harmful, not only to others but to self as well. Such thoughtlessness, then—rather than careful thought – is the seed of action which presently bedevil us. And the seeds, more often than not, are words with garbled meanings, such as the twisted meaning of "special privilege" – warped from bad to good. The Tyranny of words!

It is increasingly evident that countless millions in all walks of life thoughtlessly "live" off others; they loot and they don't know it. They are unwitting victims of their own naivete, stumbling along the devolutionary road.

Does a professional thief think of himself as a looter? No, he probably thinks of himself as a professional. He has only a primitive or stunted mentality, like the tribesmen of yore who raided distant tribes and made off with what they thoughtlessly regarded as theirs. Economically illiterate -- but innocent!

So, we have in the professional crook an unconscious looter suffering no mental pains but glorying in his "gains." Exceptional? No, tens of millions fall into this identical category, and with pride instead of guilt.

Frederic Bastiat helps us to see through this shameful practice:

> See if the law (government) takes from some persons what belongs to them, and gives it to others persons to whom it does not belong.
>
> See if the law benefits one citizen at the expense of another *by doing what the citizen himself cannot do without committing a crime.*

It is obvious that government would not take from some and give to others were the others to reject the loot. It follows then, that the recipients of ill-gotten gains are as sinful as the government which effects the transfer by force.

Only the hardened professional criminals – a fraction of the population—would personally so indulge themselves. The vast majority would refrain from immoral action were it a you-and-me relationship. Honesty would prevail.

However, when government does the coercive taking and handing out, most citizens –those who do no thinking for themselves – are relieved of any sense of indulging in crimes. Instead they experience a false sense of absolution. Their lack of vision obscures reality!

In compiling a list of looters, let us take care not to confine it just to the "beneficiaries" of food stamps, medicare, rent control, federal housing projects, workers paid not to work or farmers not to farm, and countless thousands of others engaged in more or less obvious forms of looting. In fairness, we must label all looting as such, and much of it is far from obvious. We must include all instances where coercion, be it private or public, is employed to "benefit" some at the expense of others. The list is too long to count, let alone explain, so a few samplings must suffice.

> In St. Louis it was a Gateway Arch that taxpayers from every state were compelled to help finance. Elsewhere, a school, library, park, dam, housing project or whatever. Is there a community in the U.S.A. without one or more such monuments to looting?
>
> Minimum wage laws coercively invoked, with strong support from labor unions, cause large-scale unemployment, the burdens of which all taxpayers are compelled to share. This, too, is a form of looting.
>
> Businessmen and their associations obtain legal prohibitions of free exchange, such as tariffs, embargoes and quotas. They are no less looters than are the striking workmen. How is this looting done? All others are deprived of the opportunity to produce in those fields – the looting or limitation of their livelihood and their lives.

At this point, let us be mindful of that old adage, "the pot calling the kettle black." For we critics of looking may be looters ourselves. Plunder is so rampant that everyone in involved more or less – unconsciously participating or trapped beyond escape. Doubtless, you are trapped in the social security "lootery." I am trapped in the socialist mail "system." Examples abound. This predicament poses the final question: What should we critics of looting go? What might the right tactic be?

Perhaps another acronym may help to clarify the creative force: **L**iving **I**n **G**ood **H**igh **T**hought; **LIGHT**! To see the LIGHT, we need what I would call intellectual binoculars. We should see, not with just one, but with both eyes.

The vast majority see with one eye only and as a consequence, observe merely surface or false appearances. Being half-blinded results in discouragement and frustration; it lacks any creative stimulus – life's mission abandoned.

Fortunately, there are those who see with one eye the falseness of **LOOT**, and with the other observe the true **LIGHT**. To thus see beneath the surface brings enlightenment – encouragement. Such persons are aware of the growing numbers who are beginning to see the destructiveness of plunder and how freedom works its unbelievable wonders.

The half-blind see only the shadows. Those with "intellectual binoculars" can share the insight of Goethe: *Where the light is brightest, the shadows are darkest.*

**Leonard E. Read was my friend and mentor. He wrote this piece in March 1978* - Nelson Nash

Number Twenty 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.

Lesson 20: Creating The Entity

Content: Page 36, *Becoming Your Own Banker – The Infinite Banking Concept®* Fifth Edition Fifth Printing.

First of all, we need to consider where the idea of insurance began. From all that I can gather, it started in a coffee shop in London, England. It was named Lloyd's. The business is now known as Lloyd's of London. Businessmen were sitting there drinking coffee on a regular basis and were watching ships come and go from the harbor. Even now the high seas can be a treacherous place, but in those days with the frail ships that were in use, it was particularly dangerous. A lot of the ships did not make it to their destinations. This was a great loss to the owners of the ships and cargo.

So, the businessmen conceived an idea of writing their names under the portion of the cargo for which they would be responsible in case the ship did not make it to its destination. This is where the word "underwriter" originated. If the ship made the voyage successfully, then the underwriter kept the fee that was charged. If the ship didn't make it then the underwriter had to cough up the agreed upon value. It was all "term insurance." It only applied to the term of the voyage.

Sometime later the idea of life insurance was developed. It, too, was all term insurance. A person contracted with a life insurance company and paid a premium. He didn't die that year, so he had to re-negotiate with the company for the next year. It should be pretty obvious that the premium would have to go up because he was year older, and hence, that much closer to the time that death would occur.

And, so, the insured kept up the practice of renewing each year, and the premiums kept getting higher and higher. Ultimately, the premium got so high that he couldn't afford it any more – and just a few years later – he died!! Now, Ralph Nader did not invent the idea of consumerism – that idea has been around since time began. Study the archives carefully and I think it is pretty obvious that life insurance companies did not invent whole life insurance – it was the observation by consumers that the yearly term life insurance was a rip-off and that the life insurance companies had to come up with a better solution.

It was pretty obvious that when you buy fire insurance on a house, the odds are that it will never burn. There are all sorts of other forms of insurance that are similar. The odds are that the event insured against will probably never happen. But, death is not an if – it is a when!! And so, in response to the obvious, the life insurance companies came up with a plan of collecting more premium than was necessary in the early years of the contract, putting that money to work at interest, and providing a fund that would offset the higher premiums that would otherwise be necessary – and now the insured would have a death benefit no matter when he died. They called their product Whole Life Insurance.

It is my contention that this was a gross misclassification of a product.

I was educated as a forester, and during forestry school we had lots of courses that involved classification. Dendrology, the study of classification of trees, lasted an entire year. After a number of courses like that, hopefully, one will learn that you must correctly classify whatever you are studying before going any further. Otherwise, you are just wasting time and you are going to get wrong answers.

You classify things on the basis of their major characteristics, not incidental ones. I submit that this thing the life insurance companies came up with had much more characteristics of a banking system than it did of insurance. If I were assigned the job of naming it, I would have called it, "A Banking System, Plus A Death Benefit Thrown In For Good Measure." Or maybe it needed to be an acronym of some sort because that's quite a long name.

According to Webster's Third New International Dictionary the definition of Banking is: The business of a bank, originally restricted to money changing and now devoted to taking money on deposit subject to check or draft, loaning money and credit and any other associated form of general dealing in money or credit. A bank is really nothing more than an aggregation of whatever item is under discussion. For instance, my wife gives blood regularly. Guess where she goes to perform the activity? Right! The Blood Bank! Last winter I spent a week in Utah and saw a lot of snow. Where the snowplow had come along the roads there were mounds of snow piled up on each side of the road. Yes, we refer to them as snow banks!

A life insurance company has to collect lots of premiums (That is an aggregation of money) and must put that money to work somewhere that is pretty safe and secure (Loans to certain business activities). The policy owner has needs for financing many of the things in life – autos, homes, etc. – and he out-ranks all others in access to the money that must be lent by the insurance company. If he will contract with the life insurance company to pay enough premiums, he can build a system that is large enough to handle all his needs for finance. Since all the earnings in a mutual insurance company go to the policy owner, he will build wealth that can dramatically change his life for the better.

Nelson's Favorite Quotes of the Month

Everything that annoys us about others can help us to understand ourselves.

Begin each day anew and forgive yourself for yesterday.

Wisdom is the reward for listening over a lifetime.

It is the very things that we think we know, that keep us from learning what we should know.

If you search for a perfect friend without faults you will remain friendless.

Nelson's Live Seminars for November and December 2011 http://infinitebanking.org/seminars/

Our comprehensive *Becoming Your Own Banker®* seminar is organized into a five-part, ten-hour consumer-oriented study of *The Infinite Banking Concept®* and uses our book *Becoming Your Own Banker®* as the guide. Nelson covers the concept's fundamentals in a two-hour introductory block the first day. He then covers the "how to" over an eight-hour block the final day. These seminars are sponsored by IBC Think Tank Members, therefore attendance is dictated by the seminar sponsor. If you are interested in attending one of these events, please call or email the contact person listed with the seminar.

Nelson Live in Boerne, TX, Thursday-Friday, January 26-27, contact Janet Sims at 830-331-9805, janet_sims@financialprocessgroup.com

Nelson Live in Birmingham, AL, Tuesday-Wednesday, Feburary 7-8, contact David Stearns at 205-276-2977, david@infinitebanking.org

IBC Think Tank Symposium, Thursday-Friday, 9-10 Feburary, contact David Stearns at 205-276-2977, david@infinitebanking.org

Nelson Live in Ft Worth, TX, Thursday-Friday, February 26-27, contact James Neathery 817-790-0405, jcneat@gmail.com

Nelson's Newly Added Book Recommendations http://infinitebanking.org/reading-list/

Don't Vote – It Just Encourages The Bastards
by P. J. O'Rourke

The Idea of America
by Bill Bonner & Pierre Lemieux