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Bina West Miller: Pioneer

By Wendy McElroy

Sabina (Bina) West Miller (1867–1954) is proof that one person can change the world. She saw a social injustice and corrected it through hard work, entrepreneurship, and good will. In the process she broke through one of the strongest cultural barriers in history: bias against women. The injustice she confronted was the inability of average women to secure life insurance in the late nineteenth century. This left women—and in many cases their children—without a benefit available to men. Miller achieved her goal in a resounding way that changed insurance practices in America.

As a 24-year-old teacher in rural St. Clair County, Michigan, Miller was profoundly affected by the fate of her two favorite students—a brother and sister. Their mother died, and their father could not afford a housekeeper to care for them. The precocious children were placed in separate foster homes where the girl worked as a domestic servant and the boy was “lent out” to work in a livery stable. The children lost their mother, their family, and their futures at the same moment. Miller believed the family would have survived the death of the father

because he had life insurance through a fraternal society; the money meant resilience and provided options. Unfortunately, at that time average women were considered uninsurable because of their high mortality rate in pregnancy and childbirth. And so the mother had been uninsured. The scenario was not uncommon.

Shortly afterward, in June 1891, Miller and her aunt Nellie attended a picnic held by the fraternal society Knights of the Maccabees in Port Huron, Michigan. The society offered life and disability insurance to members, as well as providing self-improvement programs and other social benefits. The members were male. An inspiring speech gave Miller the idea of extending those advantages to women, and the idea burned in her like a fire. The booklet *A Golden Anniversary Tribute to Bina West Miller* (1942), written by Miller’s longtime associate Mary MacEachern Baird, described the moment. It opened by repeating Miller’s words:

“Aunt Nellie, I believe this [life insurance for women] is the greatest thing I have ever heard of,” said a serious, dark-haired girl to her aunt, as their horse jogged along a quiet country road at the close of a hot summer afternoon from a picnic which they had attended together. “I think I shall make this my life work. Here is a real need, and I know I can fill it.”

It was a bold statement, uttered at a time when women could not vote for president, did not have the same property rights as men, and could not serve on juries.

Nevertheless, Miller confronted the challenge and started creating women’s auxiliaries for the Fraternal Society of the Maccabees. Fifteen years later, the *Milwaukee Sentinel* (October 7, 1916) carried an advertisement for the Women’s Benefit Association of the Maccabees (WBA)—Miller’s umbrella organization. The WBA announced itself as “The Largest, Strongest, and Most Progressive Fraternal Benefit Society for Women in the World. Offers more opportunities to women than any other

fraternal insurance society. Non-political and non-sectarian. Established in 55 states and provinces. Organized October 1, 1892." The advertisement went on to state the current membership at 188,008 women and the benefits paid since organization at \$13,863,295.70 (estimated to be \$303,743,462.84 in current dollars). Its reserve fund was \$9,478,870.02 with a 1916 interest earning of \$450,000 on "gilt edge investments." The ad assured readers that every dollar went into homes "in time of want and distress. We cannot begin to record the deeds of loving kindness and sympathy that have gone hand in hand with these disbursements." And, indeed, the WBA established a reputation for the immediate and uncomplicated payment of member claims.

Life Insurance Throughout History

Private societies have been providing health and life insurance at least since Greek and Roman times, circa 600 AD. In Rome members of "benevolent societies" would make regular payments in exchange for financial assistance with burial costs and other expenses. In the seventeenth century, friendly societies emerged in England and became popular by the late nineteenth century. These mutual-aid groups comprised paying members who came together to establish a general fund to provide insurance, pensions, and other financial benefits to members; social benefits like education were also prominent aspects of the societies. While insurance companies offered coverage to the affluent, these organizations insured the common man. They exploded in popularity. The Insurance Cyclopaedia (1871) by Cornelius Walford listed 9,497 friendly societies in existence between 1828 and 1847, with total membership on July 8, 1847, of 740,581. In the nineteenth century female friendly societies were also commonplace.

The early American model of insurance was based on the English one, with the first life insurance company founded in 1735 in Charleston, South Carolina. Benjamin Franklin was instrumental in establishing the efficacy of mutual-aid insurance when in 1752 he founded one of the first effective fire insurance companies in the colonies, the

Philadelphia Contributionship for the Insurance of Houses from Loss by Fire; Franklin also recommended life insurance. The first life insurance association based on mutual aid was chartered on May 2, 1759. The Corporation for Relief of Poor and Distressed Widows and Children of Presbyterian Ministers was a general fund established by Presbyterians in Philadelphia and New York for ministers and their families. Ten years later the Episcopalians followed suit.

Meanwhile the first insurance policy for members of the general public was issued in 1761 in Philadelphia. But such insurance was still uncommon. In his chapter on Bina West Miller in Ladies for Liberty, John Blundell explained, "Life insurance provided by joint-stock companies had come to the U.S. as early as the 1750s followed by mutual life insurance companies in the 1840s. . . . But the policies of both such companies were out of the reach of the average person."

By the late nineteenth century, however, life insurance for working people thrived due to the emergence of fraternal organizations that provided a massive private safety network of all races and incomes. In "The Rise and Fall of Fraternal Insurance Organizations" (Humane Studies Review, volume 7, number 2 Spring 1992), Leslie Siddeley wrote, "At this time, the insurance industry in America was young, and life insurance was a luxury reserved for the rich. This began to change, however, when a group of railroad mechanics from Readville, Pennsylvania formed a fraternal organization [in 1868] which had among its functions the provision of life insurance for its members."

The word fraternal comes from *frater*, the Latin word for brother. Thus fraternal organizations are brotherhoods in which members share common values, like religion or profession, and where they associate for mutual advantage. In nineteenth-century America, membership was almost always limited to one sex, generally men. Gradually, it became acceptable for women to "join" by forming separate auxiliaries, but they did not necessarily enjoy the same benefits.

Siddeley noted that “by 1920 the National Fraternal Congress (NFC), an association of fraternal societies, boasted 200 member societies with 120,000 local affiliated lodges. These 200 societies insured nine million members with over \$9,500,000,000 of life insurance in force. The member societies of the NFC were just the tip of the iceberg. For example we know that in 1918 there were 313 non-NFC fraternal organizations providing insurance to the immigrant poor in Chicago alone. In fact, fraternal insurance was by far the most popular type of insurance among the immigrant poor, as well as among native blacks. Despite their poverty, these groups had levels of insurance equal to, and sometimes greater than, native whites.”

The Maccabees

The fraternal organization with which Bina West Miller associated was the Knights of the Maccabees. Established in 1878 in Ontario, Canada, the group was active in her home state of Michigan, where it became renowned for low-cost members-only insurance. At first the Maccabees provided insurance on an assessment basis. When a member died, all the others put ten cents into a general fund to provide the widow with a payout. After a massive reorganization, however, the Maccabees began collecting monthly fees based on recent payouts. In 1890 they expanded to offer sick benefits, as well as disability and funeral benefits. People flocked to the financial and social benefits offered by the Maccabees. Sick benefits ran from \$4 to \$10 per week. Benefits in the case of permanent disability were \$50, \$200, or \$300 annually, depending on how much a member had been assessed while working. Other benefits were similarly well defined. In 1896 the organization boasted a membership of 209,831.

This was the organization as Miller knew it in 1891, when she made the fateful decision to push for the inclusion of women. Her timing was excellent; three years later New York Life became the first company in America to offer life insurance at the same rates to both women and men; previously, women had been charged more. Clearly a demand for women's equality in benefits was in the air.

Working from the basement of a local Maccabee Temple, on October 1, 1892, Miller began to create women's auxiliaries called Ladies of the Maccabees; as noted, they would be collectively known as the Women's Benefit Association—a nonprofit, dues-supported organization run exclusively for and by women. The first certificate for a death benefit was issued on November 4. The first death claim was paid out on September 25, 1893; it was \$1,000. Gaining a reputation for fairness, Miller grew the membership from 319 in 1892 to 5,770 in 1894. By 1900 there were 75,000 members in 42 states.

“Hard Work and Ever At It”

According to Albert C. Stevens, author of *Cyclopedia of Fraternities*, Miller's organization was not recognized by the Maccabees at first. Her success changed many minds. Stevens, a contemporary of Miller, wrote, “Its successful career has surprised many, even among its well-wishers, and has shown that women may safely be intrusted with the conduct and management of many of the broader business affairs of life.”

How did she do it? The motto that graced her office was: “Hard Work and Ever At It.” With \$500 of borrowed money, Miller traveled extensively and alone, often by horse and buggy. She not only sold memberships to women in the United States and Canada but also formed local chapters and auxiliaries. Moreover she did so without pay at first.

Blundell described Miller's method: “Her strategy from day one was to contact the head of the male fraternal society in a particular town and to ask to talk to its members about how a women's auxiliary could benefit their female relatives. If successful (and she nearly always was) she would parlay this meeting into a second one with the women.”

More than Insurance

Women flocked to her presentations. The benefits Miller offered were more than financial. They included self-improvement programs, emotional support networks, and service in the

community, such as volunteering at hospitals.

Each chapter met monthly to provide the women with a social outlet, which many of them sadly lacked; the Maccabees organized largely in rural areas. The various chapters were connected by the Ladies Review, a periodical from Port Huron, Michigan, which became the WBA's home base.

The WBA is a success story that deserves to be explored in far more depth. For example, in 1931 membership was opened to men. Miller continued as chief executive officer of the WBA for over 56 years until her retirement at age 81. In 1996 the organization was renamed Woman's Life Insurance Society and remains a vibrant concern.

Much more could also be written about Bina West Miller, including her achievements unrelated to the WBA. But the network she established has particular significance for the modern day.

Miller's network is not merely a remarkable accomplishment, it is also a reminder that average people can provide admirably for their own needs, especially when they band together in mutual aid—as they are inclined to do. By 1924 the WBA's membership passed 250,000 and chapters were active in most of the states as well as Canada. This membership feat was achieved in the days of cumbersome travel, without the Internet, and despite social taboos.

The ability of average people to address complex social problems is often denigrated or dismissed outright in favor of bureaucratic solutions. Miller is one of many historical examples that give the lie to such dismissals. Sadly, if Miller were to attempt a similar task today, the main barrier would be government.

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A Primer on the “MEC” Rules

By Robert P. Murphy

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Whenever a newcomer is introduced to the wonders of dividend-paying whole life insurance, he soon encounters the dangers of overfunding and hence “MEC”-ing a policy. In this article I'll give a quick primer on what this status means, where it came from, and the ramifications it has for policyholders.

“MEC” Defined

The acronym “MEC” is short for “modified endowment contract.” To say that you “MEC”ed a policy means that you stuffed it with too much money and hence the IRS will now cease to classify it as a standard life insurance contract (the purpose of which is to provide a death benefit), but instead will classify it as an endowment contract (a modified one, to be specific).

According to Wikipedia, an endowment policy “*is a life insurance contract designed to pay a lump sum after a specified term (on its ‘maturity’) or on death. Typical maturities are ten, fifteen, or twenty years up to a certain age limit.*” So the distinguishing feature of an endowment policy—in contrast to standard life insurance—is that there is a good chance it will mature and pay out before the insured dies. It's still *life insurance*—both in fact and even according to the government's own definition—but an endowment policy is designed more as a short-term savings vehicle, rather than as a hedge against death.

In this context, it's more understandable now why the IRS classifies policies stuffed with cash early on as “modified endowment contracts.” The idea is that the policyholder is using the special IRS treatment of life insurance as a way to let his wealth accumulate in a tax shelter. (As Jerry Seinfeld

might say, "...not that there's anything wrong with that.") Thus, the IRS is declaring, "*Because this is suspiciously designed to take advantage of the favorable tax-deferred build-up of assets, rather than as a way of funding widows and orphans in the event of an untimely death, we are going to put in some extra rules to make sure things don't get carried away.*"

To reiterate, I am not here to endorse the IRS' attitude on this issue. I am merely trying to explain where this odd term "MEC" comes from, since it is of such crucial importance in the actual implementation of cash management via whole life policies.

The Origin Of The MEC Rules

What we now know of as the MEC test came into effect in the Technical Corrections Act of 1988 (H.R. 4333, S. 2238). Officially the measure was in response to the widespread use of single-premium life policies by wealthy individuals.

It is amusing to watch the IRS change its policies time and again. They put punitive tax rates in effect, and then act like they're being generous by granting pockets of exemptions from the very taxation that they instituted. When people quite rationally respond to the system of incentives, the IRS is shocked, shocked at the outcome and tinkers with the rules. Rinse and repeat, ad infinitum. As Nelson Nash asks, "Don't you start to get a little suspicious?"

Later in the article I'll have more to say about the relationship between the tax code and whole life insurance, but for now let us simply observe: How can it be that Dave Ramsey and the other gurus so confidently tell us how *awful* life insurance is, when the government needed to put in special rules to stop rich people from stuffing their money into it? Do Ramsey et al. really mean, "Oh, starting in 1989 whole life insurance was awful, but before then it was great"? Do they even know about the MEC change?

The 7-Pay Test

An online article reprinted from Forefield,

Inc.1 provides a good summary of the MEC criteria and penalties. With the understanding that I am an economist—not a qualified tax professional—let me give the basics for the novice readers:

The IRS can classify a whole life policy as a modified endowment contract (MEC) if money is put into the policy too rapidly during its first seven years. More specifically, the IRS first calculates the annual level premiums one would pay on a policy with the same death benefit to have it fully paid up after seven years. Then the IRS looks at the *cumulative* payments into the actual policy during the first seven years. If, at any time, the cumulative payments on the actual policy are higher than the cumulative payments on the 7-year-pay whole life contract with the same death benefit, then the policy is a MEC.

There are some subtleties with this definition. For one thing, it's permissible in any particular year to put more into the policy, than would happen in any particular year with a level premium in the 7-year-pay policy. This can happen if the person doesn't put too much into the policy in the first (say) three years, and then dumps in a large amount of cash in the fourth year. So long as the *cumulative* amount in years 1 through 4 isn't higher than the cumulative premium payments on a hypothetical 7-year-pay policy with the same death benefit, the policy isn't a MEC.

On the other hand, this flexibility doesn't run the other way. If an owner dumps too much money into the policy early on (in the second year, say), such that the cumulative contributions at that point exceed the cumulative premiums on the hypothetical 7-pay policy, then the policy is a MEC, period. It doesn't matter if the person contributes much lower amounts in years 3 through 7, so that eventually the cumulative contributions in reality are lower than the cumulative contributions for the hypothetical 7-pay policy. Once a MEC, always a MEC. You can't "get square" by holding back on future contributions.

Finally, we should note that whenever there is a "material change" to a policy—which includes a

change in the face amount—it must be subjected to a new 7-pay test going forward from the date of the material change.

Why Term Riders Help Pass The MEC Test

Now that we understand the origin and the specifics of the MEC test, we can understand why insurance agents will often recommend including a level term rider for, say, the first ten years of a new whole life policy. (In other words, the base whole life policy might have a 10-year term life insurance policy appended onto it.)

By coupling a new whole life policy with a level term rider, the overall death benefit of the policy can be raised significantly in the early years of the policy, and for lower premium outlays than would be necessary to have the same death benefit in a standard whole life policy. Yet because (as we've seen) the MEC test is based on the level premiums for a 7-pay policy *with the same death benefit*, the boosting of the death benefit (by adding the term rider) thereby boosts the annual premiums in the hypothetical 7-pay policy. Therefore, the addition of the level term rider “opens up” the policy, and allows the owner to contribute higher amounts in the first seven years without turning it into a MEC.

Although the level term riders can be quite useful in designing policies that accommodate an owner's cashflow goals while steering clear of the MEC limits, we should emphasize that term level riders were *not* invented merely as a way to circumvent the new tax laws. On the contrary, whole life policies had term riders before 1988, and the reason was simple: Because of their relatively higher premiums, whole life policies in certain circumstances didn't provide enough death benefit early on, and so households might supplement a standard whole life policy with a term rider in the first (say) ten years. By the time the term policy fell away, the underlying whole life policy's death benefit could have grown because of Paid Up Additions made by the policyholder during the intervening years.

Penalties From A MEC

Although agents trained to implement the Infinite Banking Concept will want to avoid MECs like the plague, we should be clear that MECs are actually still *life insurance* per the government's classification, and hence still enjoy the standard tax-free treatment when death benefits are paid to a policy's beneficiary.

However, the supreme drawback to a MEC—which is of crucial importance for anyone using whole life policies for their cashflow or “banking” qualities—is that the policyholder forfeits the special tax treatment normally afforded to the use of the cash value while still alive, including policy loans and withdrawals. For example, if a person has a basis (meaning lifetime premium payments) of \$50,000 in a policy that now has a cash value of \$80,000, and the person takes out a \$70,000 policy loan, then \$20,000 of the loan will be subject to standard income taxation as a gain. In contrast, with a non-MEC policy, *all* policy loans—even beyond the “basis” in the policy—can be taken with no income tax consequences, because strictly speaking a loan isn't income.

Remember, the IRS instituted the MEC test as a way of discouraging individuals from using life insurance policies (such as single-pay policies) as tax-privileged savings vehicles. That is why a MEC has penalties applied to something as innocuous as taking a loan from a financial institution with another asset serving as the collateral. From an accounting standpoint, a loan really *isn't* income, and so has no business being taxed as such. Yet accounting principles go out the window when the IRS is trying to contain the ramifications of its own policies.

There are other constraints imposed on a MEC. For example, beyond regular income tax, there are additional penalties placed on withdrawals before the age of 59½. Thus the standard paternalistic treatment of IRAs, 401(k)s, etc. kicks in with MECs. Since the whole *point* for many people of dividend-paying whole life insurance is precisely to avoid this busybody regulation of how a person can use his own wealth, it is particularly important to avoid MEC status.

“Won’t They Just Change The Tax Laws Again?”

In reading this discussion, some newcomers might be discouraged and decide that dividend-paying whole life policies, though they seem to be quite extraordinary in several respects, are actually too good to be true, and will probably be “shut down” by the government with yet another change in the IRS code.

This view is simplistic for two reasons. First, it suffers from the Yogi Berra flaw of not going to a restaurant because it’s too crowded. In other words, it can’t simultaneously be the case that “nobody should buy whole life policies” and “the government will soon crack down on this practice because it’s too popular.”

The view is also wrong because it overlooks a crucial fact about the 1988 creation of the MEC test: The tax law changes *grandfathered* in policies that were already in force. In other words, people who had bought large cash-value policies before mid-1988 didn’t lose the tax advantages prevailing when they first acquired the policies. The only thing that would make them vulnerable to a MEC test would be a “material change” in the policies, after mid-1988.

In this light, then, it is particularly silly for someone to say, “I love everything Nelson Nash teaches, but I’m just afraid the government will break up the party.” If *that’s* the objection, then take heart: Although it’s certainly possible the government will tighten up the rules *going forward*, it would be less likely to retroactively apply the new rules to policies already in force.

Conclusion

It is undeniable that one of the major attractions of dividend-paying whole life insurance policies is their special tax status. Even though one must be careful to use the conservative term “tax-deferred,” in practice the growth of a policy’s internal cash value can be used (through policy loans) and ultimately passed on to the beneficiary with *no* taxation. In light of these facts, I am constantly amazed at the confidence with which financial gurus

tell their fans that life insurance is “a terrible place to put your money.”

Even so, Nelson Nash has always made it clear that dividend-paying whole life insurance policies are not a creature of the tax code. Permanent life insurance policies existed well before 1913 (when the IRS was created). If the tax laws are altered again, life will go on for the insurance sector, and (depending on the specifics) it will still probably make a great deal of sense for middle- and upper-income households to own whole life policies. After all, despite the 1988 changes in the tax treatment, no whole life policyholders were complaining when the market crashed in 2008.

1. https://www.usaa.com/inet/pages/advice_what_is_modified_endowment_contract

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Banks and Sociopaths

by Douglas French

Oceans of taxpayer money and patience have been devoted to propping up the banking system. Why? So that when we go to retrieve our money from an ATM our money will actually come out. At least that’s what then-Treasury Secretary Hank Paulson told us when the big banks were on the verge of hitting the fan in 2008 and 2009.

The implication was that if the banks failed -- “poof” -- our money would go with them. Nobody wanted to lose their cash, not at the same time many people’s 401(k)s were being turned into 201(k)s.

The government wasn’t going to let that happen. In the heat of the crisis the federal government committed \$23.7 trillion -- yes, with a “t” -- to make sure bank depositors could sleep at night and bank executives had a place to work during the day.

That big, scary, impossible-to-comprehend number was calculated by Kevin Puvalowski, who

worked directly for Neil Barofsky, the special inspector general for TARP (SIGTARP) and author of an illuminating new book about his experience, *Bailout: An Inside Account of How Washington Abandoned Main Street While Rescuing Wall Street*.

Barofsky writes that the alphabet soup of programs actually maxed out funding at only \$4.7 trillion. But again, that number, \$4.7 trillion, is \$4,700 billion, or \$4,700,000 million, or \$4,700,000,000,000.

Now that we're three years down the road, one would expect the banking system to be healed, given all of the government's monetary medicine. But while the FDIC's Quarterly Banking Profile for the second quarter painted a positive picture for the banks, it was anything but rosy.

Sure, 63% of banks reported higher earnings, but 732 banks are still on the deposit insurer's "problem" bank list (after 454 banks failed since the crisis began). That's 10% of all insured institutions.

Industry earnings rose 21% over the past year, the 12th consecutive quarter of increased earnings. However, earnings continue to be driven by lowering of loan loss provisions and gains on sales of loans and assets. The net interest margin continues to sink with the Fed's zero rate policy, and bank balance sheets are still loaded with troubled assets.

And while consumers and businesses are funneling money into bank deposits for safety, the FDIC Deposit Insurance Fund is now \$22.7 billion, only a tiny fraction (30 basis points) of the \$7.1 trillion in deposits the DIF backstops. The Problem Bank List website points out the problem:

This is equivalent to trying to protect yourself with an umbrella in the middle of a Category 3 hurricane. The collapse of one of the "too big to fail" banks would immediately require the FDIC to seek financial assistance from the U.S. Treasury. During the height of the financial crisis, the FDIC was granted a line of credit with the U.S. Treasury for up to \$500 billion.

Dodd-Frank legislation requires that the DIF

increase to 1.35% (135 basis points) by Sept. 30, 2020. Good luck with that.

The Dodd-Frank Act also set up another agency -- the Financial Stability Oversight Council (FSOC) -- to keep an eye out for future systemic risk. After all, since the financial meltdown, the big institutions have only gotten bigger and the total number of banks has shrunk. One percent of the banks now hold 78% of deposits. And when it comes to derivatives exposure, the one percenters hold virtually 100%, totaling almost \$225 trillion at the end of the second quarter.

When asked if he thought the FSOC would prevent the next crisis, the ex-head man at the Office of the Comptroller of the Currency, John Walsh, told *American Banker*, "I would love to think that FSOC, the next time around, will have a meeting and catch the crystal just before it hits the cement floor, but I don't think so. I think they'll come with a broom and sweep up the debris."

It won't be long before another crash comes along, and no doubt there will be government agencies created to sweep up the glass. Fixing the problem isn't ever the government's priority, but instead, as Barofsky writes:

I soon learned that they [inspectors general] were mostly like any other agency. As such, their priorities were, in order of importance: maintaining and hopefully increasing their budget; giving the appearance of activity; and not making too many waves.

The head of SIGTARP also learned "shading of the truth was an accepted part of doing business in Washington."

Barofsky's depictions of Tim Geithner and Neel Kashkari are withering. Kashkari, interim assistant secretary of the Treasury for financial stability, does come out looking a bit better, with Barofsky writing, "I don't think he ever flat out lied to me, which in Washington put him in rarefied air."

Geithner would seem to be just a plain-old sociopath. Barofsky could get Geithner to meet with

him only by threatening to report the secretary's behavior to Congress. When they did meet, Geithner was hostile:

As we parried back and forth, Geithner repeatedly reached a pitch of anger, regaling me with detailed expletive-filled explanations that established my apparent idiocy. He would then calm himself down and give me a forced, almost demonic smile.

Barofsky's wife, a psychiatrist, told her husband Geithner might suffer from narcissism, "and therefore might be psychologically incapable of truly admitting that he made a mistake." The man who would go from running the New York Fed to Treasury secretary would prove her long-distance diagnosis correct.

Again, these were the guys dishing out trillions of taxpayer money to save the banks. TARP, TALF, PPIP, and the rest turned out to be programs for Geithner and Kashkari to shovel money with no accountability to their friends on Wall Street.

There's been plenty of criticism of the loose lending standards employed by the mortgage industry during the boom. But from what Barofsky describes, TARP was every bit as loose. Wall Street speculators put little money down to buy the toxic assets, with the government providing nonrecourse financing.

The rescue of AIG is especially galling, given it was essentially a bailout of the insurer's counterparties. The New York Fed, under Geithner, authorized \$60 billion to buy bonds from the insurer's counterparties "that were worth less than half of that amount."

Barofsky's audit determined that Geithner never attempted to negotiate a discount, even when one of the banks had offered it upfront. When asked about it, the New York Fed's general counsel insisted that banking laws required the payment of full price.

Geithner's Treasury department went so far as to fudge the numbers on the AIG bailout, making tens of billions of TARP losses disappear for a report it prepared for Congress.

In the end, the ATMs kept working, and by 2010, compensation at the top 25 Wall Street firms broke records at \$135 billion. JPMorgan Chase grew 36% in size, and Wells Fargo more than doubled. Wall Street lives happily ever after. The taxpayers, not so much.

The question is will the 848-page Dodd-Frank bill keep the financial system intact? Don't bet on it. As Barofsky explains:

After all, one of the most-important lessons that should have been learned from the financial crisis was the remarkable fallibility of the regulators. They had been blind, or willfully blind, about the signs of the coming crisis, and their track record with respect to previous crises was no better.

U.S. banking: a fragile system living off fake reserves, awash in mispriced assets, regulated by sociopaths, and insured with but a wisp of reserves. Barofsky lays it all out in this firsthand report.

Nothing to worry about, right? The printing press is always close at hand.

Nelson's Favorite Quotes

"People often say that motivation doesn't last. Well, neither does bathing - that's why we recommend it daily." - Zig Ziglar: Author and motivational speaker

"Bad times have a scientific value. These are occasions a good learner would not miss."

- Ralph Waldo Emerson

[War] is possibly the oldest racket, easily the most profitable, surely the most vicious. It is the only one international in scope. It is the only one in which the profits are reckoned in dollars and the losses in lives.

A racket is best described, I believe, as something that is not what it seems to the majority of the people. Only a small "inside" group knows what it is about. It is conducted for the benefit of the very few, at the expense of the very many. Out of war a few people make huge fortunes.

- Major Gen. Smedley D. Butler

Alack and Alas, We Are Undone for Bernanke Has Twist (and QE1, QE2, QE3, and QE Forever)

by William L. Anderson

In Beatrix Potter's classic *The Tailor of Gloucester* the poor tailor laments the loss of the "twist" of silk needed for the waistcoat he is creating, declaring, "Alack and alas, I am undone, for I have no twist." When Potter wrote the story in 1902, the notion that a central bank (the U.S. Federal Reserve System did not exist then) would come up with "clever" means to hide the fact that its operations were bankrupt was not quite in the realm of politically-acceptable actions.

Such financial shenanigans would come a decade later, when Europe burst into warfare and governments hopelessly inflated their currencies to pay for the carnage, leading to what has been a permanent "twist" in policy. Continuing in that vein of deception, Ben Bernanke and the Fed have come up with schemes such as "Operation Twist" and Quantitative Easing to hide the fact that it is bankrupting the economy.

Aptly named "Operation Screw" by financial analyst Peter Schiff, Bernanke's "Operation Twist" scheme has been an attempt to have the Fed purchase long-term federal treasuries and sell some of its portfolio of short-term paper in order to bring long-term and short-term interest rates closer, bringing down long-term rates in the process. I say "scheme" because that is exactly what it is: an attempt by the Fed to use monetary trickery in an attempt to fool the markets.

The standard line from Bernanke and his admirers (and even some of his critics, such as Paul Krugman, for whom the Fed never can inflate enough) is that the U.S. economy is in the doldrums because "aggregate demand" is lacking following the financial crisis of 2008. Thus, any action by the Fed to lower interest rates and to improve liquidity

is bound to result in increased "aggregate demand," which means that Americans will buy things and lead to an economic rebound that will put people back to work.

As Krugman writes:

...Obama is in a much better position than the conventional wisdom would suggest; the economy isn't booming, but it's growing, and the labor market is moving sideways rather than down. It's not Reagan's morning in America (which reflects the different and much more intractable nature of the 2008 crisis and aftermath), but it's not the political disaster you might imagine.

Krugman probably is right in that a semi-stagnant economy that does not seem to be in crisis plus a decidedly-weak Republican presidential candidate, Mitt Romney, probably does spell victory for Barack Obama in November. So be it. I cannot imagine a President Romney actually doing what is necessary to bring the economy to a real recovery and to let people know what actually is happening.

In the arena of political economy, the Keynesian theory wins hands down over anything the Austrians can produce for the simple reason that under Keynesianism, there is no such thing as malinvestment. All capital theoretically is interchangeable, and no matter where government funnels new money, be it in road construction or paying for new solar energy panels, the economic effect pretty much is the same: increased "aggregate demand."

If Bernanke purchases \$40 billion a month of housing securities, as the Fed has announced it will do, all the better, as it will drive down mortgage interest rates and give households more money to spend. Bernanke's only mistake, at least according to the critics on the Left, is that it is still too little, and that the only thing that really will light a fire under the economy is hardcore inflation.

On the other hand, Austrians are derided as "liquidationists." Just let the economy fail, have people put out of work, and the Austrians are in full-blown celebration. Contrary to the Keynesians,

however, Austrians do not believe the entire economy somehow must be liquidated. For that matter, unlike the Keynesians, Austrians do not believe that liquidation of the malinvested portions of the economy would mean that everything else had to fall apart, too. Writes Schiff:

Prior injections of quantitative easing have done little to revive our economy or set us on a path for real recovery. We are now in more debt, have more people out of work, and have deeper fiscal problems than we had before the Fed began down this path. All the supporters can say is things would have been worse absent the stimulus. While counterfactual arguments are hard to prove, I do not doubt that things would have been worse in the short-term if we had simply allowed the imbalances of the old economy to work themselves out. But in exchange for that pain, I believe that we would be on the road to a real recovery. Instead, we have artificially sustained a borrow-and-spend model that puts us farther away from solid ground. (Emphasis mine)

To put it another way, Schiff is agreeing that had the Fed and Congress not bailed out the banks and financial houses in the aftermath of the Lehman Brothers failure four years ago, the initial downturn would have been worse than what happened. Being that the crisis came in the middle of a presidential campaign, it is not surprising that Congress and the Fed acted as they did.

As a short-run strategy, the bailouts and the Obama "stimulus" that followed the president's inauguration provided what seemed to be a "softer landing" than what a hard-nosed policy of allowing the malinvestments to liquidate might have been. However, the "soft landing" was not landing at all, but rather a fall into an economic version of quicksand. True, another round of "quantitative easing" or yet another financial trick by the Fed will have some effect, but on the margin, each "pull-another-rabbit-out-of-the-hat" scheme will be less effective than the previous action.

At some point, the economy stops growing and all there is left is the inflation, and this result

is inevitable no matter what the Keynesians might claim. The problem is that Keynesians believe that an economy is nothing more than a homogeneous mass of factors of production and final products into which one stirs money. If things slow down, just add more money.

Austrians hold to the tenets of what is known as Say's Law, which is nothing more than an acknowledgement that consumption requires production, and that the source of increasing standards of living come from the ability of an economy to produce goods that help consumers fulfill their different needs. (No, Say never wrote that everything that is produced will be consumed, contrary to Keynesian claims. Say just was arguing that the real source of purchasing power within an economy comes from those things that are produced. Furthermore, Keynes did not "discredit" Say's Law; instead, he created a straw man and then demolished the false argument.)

From this vantage point, it is easy to see what is happening as the Fed floods the world with more dollars, be it through Operation Twist, or the endless QEs. If, as Austrians believe, that a price system helps to determine the value relationships between the different factors of production, including labor, then anything that distorts a price system ultimately will distort those factor relationship. The longer the distortions continue, the harder it becomes for the economy to have a meaningful recovery.

By the time the housing bubble collapsed, the distortions within the economy were obvious. Had the economy been allowed to correct itself, as Austrians were recommending, then the U.S. economy would have been on the road to a real recovery by now. Instead, Congress, the president, and the Fed pursued policies that not only stymied the needed correction, but actually tried to undo it.

One must understand that without a meaningful correction, there is no recovery. What Twist and the QEs are doing is to block the correction by forcing even more distortions upon the economy, which means that not only must the economy work through

the damage caused by the original housing bubble (and the Tech Bubble before it), but it now must deal with the distortions that Bernanke and others have imposed.

Contrary to what Washington is telling us, Bernanke is not "fighting" a recession; he is creating a depression. By insisting that inflation will cure our economic ills, Bernanke and others are only making the economy worse. Be prepared for depressed conditions for years to come.

September 18, 2012

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Number Twenty-Nine 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 III, Lesson 29: How to Start Building Your Own Banking System

Content: Page 45, *Becoming Your Own Banker: The Infinite Banking Concept*® Fifth Edition, Sixth Printing

Now, let's see how we are tracking with the concept. While looking at Table 1 on page 45, note that both twins could finance a \$10,550 trade-in package at the end of the third year.

Question: If they need to trade cars at this point, should they use their systems, as depicted, to do so?

Answer: Yes, provided that they both play "honest banker" with themselves, i.e. make payments of \$3,030 per year back to their respective systems, plus continue to capitalize them for the full seven years.

Question: If they both do this, what will happen to all the performance numbers below year three?

Answer: The numbers, in both cases will increase because the car payments of \$3,030 per year are slightly better earnings than the 5 1/2% interest that the C/D is paying and that the general portfolio of the insurance company is paying. It is just like the extra two cents for the can of peas in the grocery store example in Part One of this course.

Note that a \$21,100 car financing package could be handled at the end of year seven in both methods.

Question: If they both did so, what should the payments be to each system?

Answer: \$6,060 (or \$520.00 per month).

Question: If they both did so, what would happen to the results below that point in the schedule?

Answer: They would both improve for the reasons cited earlier -- but Method E would improve more than Method D because it is earning both interest and dividends.

Remember that both parties could elect to pay \$7,000 per year -- in which case the figures in both examples would increase even more. The "extra payment" would not be taxable to either system and would go directly to the "bottom line" -- increasing the capital that could be put to use for the benefit of each and thus, increase the total yield. But --Method E would accelerate faster because of earning both interest and dividends for the benefit of the policy owner.

Why does Method D have better net figures during the seven years of capitalization?

Because, in Method D, the fact that the bank went through a long and costly process of getting established has been left out of the scenario.

In Method E the policy owner is starting a business that never existed before. There is always a cost of starting up a conventional bank. The life insurance company is simply, in effect, an administrator of the plan. Earnings (dividends) and interest (guaranteed cash values) both go to the policy owner. But the long range results do not show up until much later.

Again, compare the numbers at the end of year 51 in the schedule. Subtract the small number from the large number (\$964,638 minus \$258,827). The answer (\$705,811) is what the stockholder at the bank earned if it were compounded without taxation over that time frame.

Now do you see why the banker went through that gory mess that was described in Part One?

We have covered the basics of what the *Infinite Banking Concept* is all about and you have seen a common example of how it works. In Part Four we will look at an example of business use of the concept. Be sure to bring an extra pair of socks for it because "it will knock your socks off!"

Save the Date
Infinite Banking Concepts®
Think Tank
Symposium
February 7-8, 2013
Birmingham, Alabama

Join us in Birmingham, AL on February 7-8, 2013 for the annual Infinite Banking Concepts Think Tank SYMPOSIUM.

Once a year, we gather with Financial Services Industry professionals and other Infinite Banking Concept enthusiasts from across the country to meet for a day and a half. This event is designed to teach and share Infinite Banking (Privatized Banking), we also introduce unique marketing concepts and motivate IBC practitioners.

This year's Think Tank will feature the upcoming **IBC Practitioner's Certification Program**, where

we will cover the program details, introduce the IBC Certification Manual and actually teach a selected class from its content. You will want to be with us in person as we explain and launch this exciting new step in building the 10%. We will offer a program discount for those that sign up during the think tank.

Of course, Nelson will be on hand to cover all the information in his book *Becoming Your Own Banker®*, plus he will introduce his new book *Building Your Warehouse of Wealth*.

Additionally, selected practitioners will present advanced material and lead discussions such as IBC case studies and other subjects of interest to include:

- The impact of "Obama care" on IBC business practitioners.
- The tax aspects of using qualified money to fund a properly designed IBC policy.
- Why *educating* your clients leads to larger sales volume and quality client involvement.
- Demonstrating the validity of Nelson's "*I can get a higher rate of return.*"

The Symposium will be held at the **Birmingham-Jefferson Convention Complex (BJCC)**. This is the same location as last year.

The host hotel is the same also, it's the **Sheraton Birmingham Hotel**, 2121 Richard Arrington Jr Blvd. N., Birmingham, AL 35203 (located adjacent to the BJCC). A block of sleeping rooms has been reserved for the event; I will post the hotel sleeping block reservation information shortly.

Nelson will conduct his ***Becoming Your Own Banker® Seminar*** on Tuesday and Wednesday preceding the symposium. ***If you have not attended a live Nelson Nash Seminar, I want to remind you that it is a prerequisite for Think Tank attendance!*** Please check our seminar schedule for other seminar dates and locations.

If you wish to see what the think tank is about, we offer DVD sets of past Think Tank events on our website; for more information check the video section in our website store.

Now Available!
R. Nelson Nash's new book

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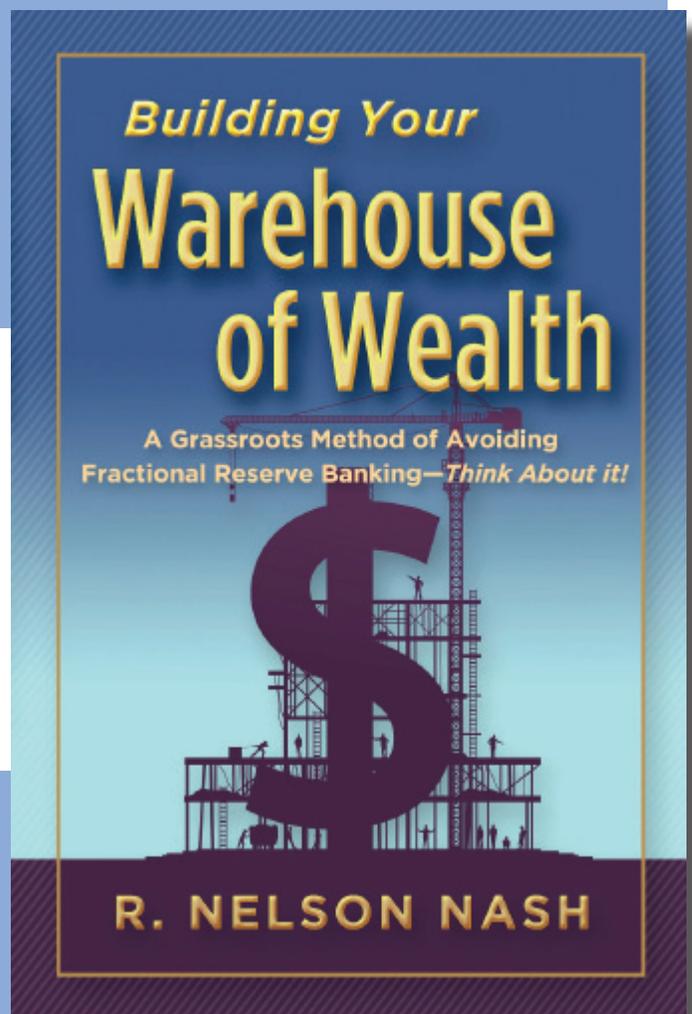
bulk rates available

Praise for *Building Your Warehouse of Wealth*:

In *Building Your Warehouse of Wealth*, Nelson Nash provides another generous helping of his inimitable wit and financial wisdom. Longtime fans will recognize the themes, but will be delighted by new material and insights. This book may be the single best introduction to Nash's worldview, which focuses on the benefits of whole life insurance but is infused with Nelson's faith in God and distrust in politicians! -- Robert P. Murphy, PhD

"*Building Your Warehouse of Wealth* is an excellent adventure exploring God's plan for taking dominion in this world. Anyone interested in throwing off the shackles of this world will find in it many useful insights about building and holding wealth in a lost world. Moreover, because the author has thought deeply about the history of Israel, the reader will also gain new insights into the Scriptures. I highly recommend it to you." -- Paul A. Cleveland, Ph.D. Professor of Economics and Finance Birmingham Southern College

This is a written testament of who you are, Nelson. Reading this was like having you sitting across from me in my living room. In the years I have known you, I have heard you talk about all of this in one form or another. This is because it is not just in your head, it's in your heart. It spells out in clear language the problem and the solution. Everyone will be immensely blessed to read this book. -- Carlos Lara, Nashville, TN Co-Author of *How Privatized Banking Really Works*



Now available on our website store: www.infinitebanking.org/store

**Nelson's Live Seminars & Events
for October & November 2012
<http://infinitebanking.org/seminars/>**

Nelson Live in Little Rock, AR, 9-10 Oct
contact Rebecca Rice & Associates
info@rebeccarice.net
501-868-3434

Nelson Live in Boerne, TX, 11-12 Oct
contact Financial Process Group
janet_sims@financialprocessgroup.com
830-331-9805

Nelson Live in Wilkes-Barre, PA, 16-17 Oct
contact Tim Yurek
tyurek@jacobicapital.com
570-826-1801

Nelson Live in Grand Blanc, MI, 18-19 Oct
contact Gina Wells
gina@advanced-capitalgroup.com
1-877-579-2224

Nelson Live in Nacogdoches, TX, 23-24 Oct
contact CBH Insurance Agency, Inc.
rickyh@cbhins.com
936-564-1735

Nelson Live in Birmingham, AL, 26 Oct
contact Stacy Brasher
stacybrasher@nowlinandassociates.com
205-871-9993 x 248

Nelson Live in Pocatello, ID, 2-3 Nov
contact Dan Rust
dan@yourfamilybank.com
435-770-6322

Nelson Live in Minneapolis, MN, 8 Nov
contact Justin Bauer
612-919-6009
youfirstjustin@gmail.com
or contact Robert Zuniga
651-343-9940
rz@overcomingroadblocks.com

Nelson Live in Phoenix, AZ, 9-10 Nov
contact LeAnn Holt
785-842-8333
leannah@sunflower.com

Nelson Live in Helena, AR, 15-16 Nov
contact Joe Hart
870-338-8311
becomeyourownbank@gmail.com

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. Typically, 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 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 information.

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

The Fruits of Graft by Wayne Jett

The Secrets of the Federal Reserve by Eustace Mullins

War is a Racket by Brigadier General Smedley D. Butler