BankNotes

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Financial Planning and the *IBC Practitioner*

By: L. Carlos Lara

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Dr. Solomon Stephen Huebner was a distinguished professor of insurance at the Wharton School, University of Pennsylvania, and chairman of the Department of Insurance at the institution. He is responsible for having written the very first textbook on insurance in 1915 and introduced the first university-level insurance course in the United States. This earned him the accolade *"the teacher who changed an industry."*[1] By 1998 I had read Dr. Huebner's classic book, *The Economics of Insurance*, in which he introduced the concept of *Human Life Value* and I was most impressed. What one cannot fail to grasp from reading Huebner's writings is the undeniable fact that life insurance is the heart and arteries of a financial plan.

Three years later and shortly after the *Dot-com crash*[2] I was in a classroom on a Saturday morning with a dozen other people listening to a seventy-year-old gentleman speaking about life insurance in a way I had never heard before. That southern gentleman was R. Nelson Nash. In view of the economic conditions of the country, his explanations were powerfully irresistible, and as he talked I contrasted Huebner's concept against Nash's, whose emphasis was the cash value of insurance over the death benefit. Nash's compelling arguments, a mixture of biblical wisdom, philosophy and solid economics, had the sound of truth all over them. Here was a man who used economic common sense in his explanations, an undeniable conviction in actually living what he taught and was totally lacking in fear. I could see he was a man of courage who knew we were all up against a formidable foe and he aimed to defeat it. At the same time, he preached a way of escape to all those who would listen.

In a vain attempt to politely contradict his theory, lest I be swallowed whole by his persuasion, I brought up Huebner. In one polite remark he simply said, *"Huebner was right, but he simply didn't go far enough!"* I was convinced right then and there that Nash's concept not only superseded Huebner's concept, but it also had the power to change the economic landscape of the country. Simultaneously, I realized that Nash would most likely never see the fruition of his dream. The real catalyst that would eventually ignite the spark to a real economic turnaround from the bottom up was the *financial advisor*—the person who speaks to people about their money on a daily basis.

What Nelson Nash has accomplished has given us the great gifts of *vision and hope* for the future in a world that many times doesn't make sense. I am grateful he has done it while he still lives—*a legend in his own time*. The IBC practitioner who can become proficient in teaching Nash's message against the broader context of our economy, concurrently implementing the Infinite Banking Concept (IBC) strategies to a public that is desperately in need of financial assistance, is the up and coming, preeminent financial advisor of the 21st Century!

The History of Financial Planning

Financial Planning is the practice of helping individuals or organizations improve their performance, primarily through the thorough analysis of existing financial problems and developing *plans* for improvement.

The demand for these and related skills have been with us since ancient times. In this country, the rise of capitalism and the industrial revolution only served to increase this demand. In addition to insurance needs, many people now owned shares of corporations and advice was sought to ensure this wealth.

"Four decades ago, the financial planning profession did not exist. For average Americans, an 'investment' meant a life insurance policy, bought from an insurance salesman who worked on commission. That was all changed by a one-time vacuum-cleaner salesman who had transformed himself into a marketing consultant and motivational writer, and a former insurance salesman turned school-supplies salesman who had a master's degree in psychology. In 1969, they began a revolution that was intended to help ordinary Americans gain control over their financial destinies. Despite huge odds, 'financial planning'—the first new profession in four centuries—succeeded beyond the most fervent hopes of its founders, not just in the United States but also around the world.

Forty years after the profession's inauspicious birth, there are more than 120,000 CFP professionals around the world, educated in scores of colleges and universities."

The History of Financial Planning
E. Denby Brandon, Jr. and H. Oliver Welch[3]

We all know that many types of investments, as well as life insurance, are financial products that must be sold, an obvious truth in the financial services industry. As stated earlier, Huebner empowered the insurance agent to couple the sale of insurance products with the ability to provide planning services. In essence, the insurance agents were the first and, in many respects still are, comprehensive financial planners. Today there are approximately 746,000 licensed financial representatives in this country representing over 7,000 banks, nearly 1,000 brokerage firms and 2,300 insurance companies. All of these institutions sell financial products. The numbers of public accountants and lawyers are legion. Yet with all the benefits of professional assistance in navigating through a maze of tax laws, the fine print on financial products and risk variables in investment prospectuses, the public is more confused than ever. Clearly, advice offered by many in the financial services industry is not providing the help that is most needed because their advice merely scratches the surface of the real problem. A person's poor judgment, undisciplined money management or lack of time to expertly research every aspect of financial decisions may be the culprit in some cases, however, the real problem stems from a completely different source. It is ***government intrusion*** and, especially, ***monetary policy*** which is at the core of this money problem.[4]

Since the stock market crash of 1929 Congress pushed through legislation with the official goal of protecting small investors from a recurrence of that event. The Securities Act of 1933, the Securities Exchange Act of 1934 and the Investment Advisors Act of 1940 all established guidelines for regulating the investment industry while providing disclosure and investor education. Following the establishment of these firm boundaries, very little changed in the financial services industry during the ensuing thirty years, but there was now a distinct legal separation between banking, Wall Street firms, and life insurance companies.

With the increasing encroachment by government into virtually every sector of the economy, and the simultaneous rise in *inflation*, brought about by the closing of the gold window in 1971, the financial needs of Americans became more urgent and complex. The financial advice business also grew and became more specialized. Except for the members of the Austrian community such as Mises, Hazlitt, Hayek and others, very few knew what lay ahead in the domestic and global markets if the United States didn't reverse its course. Their message was simple. The only way out of the impending financial crisis of the future was for government to get out of the way and free up the markets…*completely*! That message specifically implied the return to *sound money*. That message was ignored.

As a young man entering this new profession in the early 1970s I did not realize that no other sector of the economy was as intertwined with the government as the financial services industry. Still, the *consulting* profession in the early years was not yet excessively encumbered. All those constraints would come much later whereby only government-approved financial firms would have a chance to enter and compete equally in the market. Nevertheless, in those early years, I pursued my career and chose to distinguish myself from all others entering the field by selecting a unique specialty within this new profession—*business insolvency*. More accurately, I became a *workout specialist* for businesses in financial distress. This meant dealing specifically with businesses, but of course, many business firms, especially closely held corporations, have been built around a single individual or family. To this extent there is and always has been a close affinity between businesses and individuals. Consequently, financial services provided to one would automatically benefit the other. They are inseparable.

As the years went by the signs predicted by the Austrians began to appear, but it also became clear that most people could not see or hear the message. However, after each boom and bust cycle, it was undeniable, painful and clearly visible. Each time bankruptcy and liquidation permeated various sectors of the economy as the result. But the big one was still years away. The more I became an expert in handling these special types of business problems, the more it became apparent to me that government subversion of the market and current monetary policy as implemented by the Federal Reserve were the single biggest causes of all business and personal financial crisis.

The Federal Reserve and the Government protect a select few

As we all know, not all government intervention is negative to the financial industry. What we have all seen, especially since the 2008 financial crisis, is that not all businesses are the same. Businesses, especially big ones, receive special government treatment. When the Federal Reserve exercises quantitative easing and creates money out of thin air, the first to have use of it is the government-sanctioned banking monopoly, followed by all those other large firms with membership in the *"too big to fail"* club. These are the established, yet poorly run financial firms that, more often than not, specialize in *derivatives*.[6] They are able to exist and navigate the regulatory maze solely through the use of subsidized handouts from the government. The continual propping up of these institutions is making the individuals that run them extremely wealthy at the expense of the economy's legitimate producers, savers, and investors. When these convoluted banking mechanics are implemented by the Fed and mandated by government, they fool and entice unsophisticated investors and entrepreneurs into ventures that are far riskier than they appear on the surface. The results are the creation of *moral hazard*,[7] exacerbating the instability of the financial system. At the same time, all other financial firms, especially the smaller ones, suffer and are eventually eliminated from competition by costly and increasingly burdensome regulation. As recently as last night over dinner, a registered financial advisor informed me that his small financial firm is now being required to keep a record of conversations with their clients on file for 21 years. How ridiculous. He's 70 years old! Still, Congress believes more regulation is absolutely necessary to solve our economy's problems and prevent another financial crisis. In actuality, more regulation only burdens the economy. The squandering continues unabated by the powerful, the elite and the select few.

Retirement? —It's an illusion for the average American

There is absolutely no way for the average American to retire in light of what we have just stated. There is no way to do it without first having stockpiled a substantial amount of real savings. An average annual $60,000-$100,000 in retirement income requires a stockpile of several million dollars. The average citizen in today's economic environment simply cannot do it without a complete reversal in thinking about retirement. This disassociation with reality by most Americans on the subject of retirement was recently explained in a *New York Times* article entitled "Our Ridiculous Approach to Retirement" written by a professor of economics who specializes in the economics of retirement. In it she points out:

"Seventy five percent of Americans nearing retirement age in 2010 had less than $30,000 in their retirement accounts. The specter of downward mobility in retirement is a looming reality for both middle and higher income workers. Almost half of middle-class workers (49%) will be poor in retirement, living on a food budget of $5 a day. To maintain living standards into old age we need roughly 20 times our annual income in financial wealth. If you earn $100,000 at retirement, you need about $2 million beyond what you will receive from Social Security."

—Teresa Ghilarducci[8]
New York Times
July 21, 2012

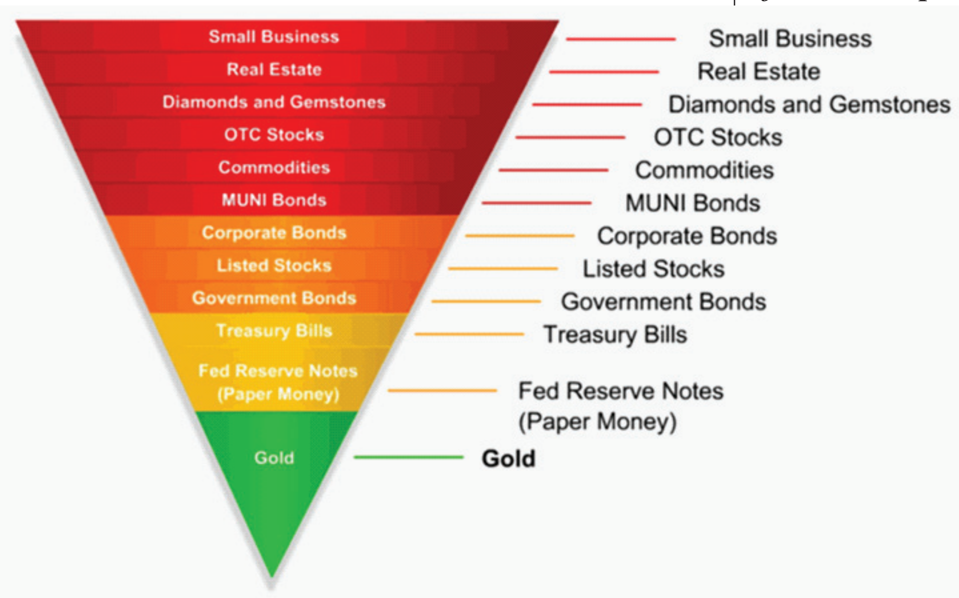
Of course we already know Social Security cannot be relied upon, but these recent facts documented by Ms. Ghilarducci are true.

Americans know they need to save; they simply cannot. Unless they can become fully informed of the real source of their money problems, they will not be able to solve this dilemma. It can all be so overwhelming that people go into denial. To put it simply, *life* has a way of completely derailing the best and most disciplined savings plan. For example, the fear of losing one's employment is a constant threat to individuals these days. Also, a serious accident or illness that incapacitates the breadwinner for extended periods of times can deplete savings and limit income. Bankruptcy is frequently inevitable under any one of these circumstances. The same is true in the case of divorce or other form of lawsuit. What about the untimely death of the breadwinner? Yes, life, as we all know, is fragile and filled with uncertainties. When these life events are coupled with severe money problems there is no way to save for retirement. Is there any wonder why Americans are forced to turn to the government as the ultimate caregiver? Finally, the current housing crisis has added insult to injury. The American home, one of the most sought after dreams and a storehouse of savings for most Americans, has been completely undermined. Americans are feeling a sense of total defeat and hopelessness.[9]

It's time to get serious.

Today we find ourselves on the verge of yet another catastrophic financial meltdown, bigger and even more destructive than the one experienced in the fall of 2008. We all know we are facing major monetary defaults on several fronts. It's all over the news! The wiggle room has gotten much tighter. How are we preparing for it? If ever, there was a need for a totally new form of financial planning, it's certainly now. In the current environment traditional financial planning is virtually irrelevant. This was the primary reason Robert and I wrote *How Privatized Banking Really Works*. It became abundantly clear that we are not in control of our money and what little money we think we do have in our control is becoming worthless. The financial advisor of the future must be able to speak with his clients on these realistic terms in an educational manner. The purpose is not to scare the public, but rather to insist that the public not remain naïve. The Federal Reserve and government intervention must be brought into the financial planning conversation by financial advisors that know how to explain it. The strategy implemented must be presented in light of this broader context if it is to make sense. The new plan of the future must give the client the eyes to see clearly. *Control, liquidity* and *exit strategies*, with thorough explanations of how everything is *monetized*[10], should be introduced in a logical manner.

In light of this paradigm, ***John Exter's Pyramid of Collapsing Values***[11] is worth studying. John Exter (1910-2006) was an American economist, a member of the Board of Governors of the United States Federal Reserve System. When he first presented this model in 1973, Exter was describing a collapse of the economy. In a panic the idea is to move downward. Note that gold is the money of last resort and appears at the bottom of the pyramid. The problem is that we can't actually use gold as money until everything collapses. In the meantime, where are you currently invested? For the IBC Practitioner the orange and yellow areas of the pyramid are of particular importance because this is where the life insurance sector has our money. When meeting with clients, he must be fully prepared to explain why, given the current economic climate and compared to all other financial products, the IBC-designed insurance policy provides the safest residence for his money until he is ready to utilize it.



Privatized Banking

Let's not forget that the cash flow of the economy runs through these three large pools of money—*commercial banks, Wall Street firms and insurance companies*. This cash flow is virtually out of our control but in control of the Federal Reserve and government. Given this closed money environment, we have to exercise sound thinking in determining where we will place the money in our possession and for what purposes. Our sole purpose should be to practice *privatized banking*.

"Once fully understood, these three ideas (Austrian Economics, The Sound Money Solution and Privatized Banking, as described by R. Nelson Nash) provide the basis for a formula with powerful turnaround dynamics that may be implemented by virtually any individual. The result is a private economic enterprise and self-perpetuating teaching tool that provides the individual the savings, banking, and financing capabilities he needs to acquire all of his material needs, plus the power to literally reconstruct national monetary policy. It is these benefits that are the key to keeping the individual inspired as he spreads the message to others. As the message grows, public opinion will change.

This is, finally, a solution that answers the question of what one person can actually do that will make a difference in an economic environment that has gone terribly awry." —How Privatized Banking Really Works[12]

Conclusion

Never before in the history of America has there been a more desperate need for truthful economic education than the one we face today. Is it possible that a small group of *free market thinkers* such as ourselves, *entrepreneurs, lovers of liberty, champions of sound money* even stand the smallest of chances of reversing the course of this country with our own brand of revolution and against such insurmountable odds? The challenge is certainly enormous. Yet this will be the calling of tomorrow's financial planner.

We speak of the IBC Practitioner, whoever he may be. Inspired by Nelson Nash, and all those great Austrians before him, it is he who can get this job done. Now he must step forward and announce himself. "I am he, send me!"

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The Cyprus Deal and the Unraveling of Fractional-Reserve Banking

by Joseph T. Salerno

The "Cyprus deal" as it has been widely referred to in the media may mark the next to last act in the slow motion collapse of fractional-reserve banking that began with the implosion of the savings-and-loan industry in the U.S. in the late 1980s. This trend continued with the currency crises in Russia, Mexico, East Asia and Argentina in the 1990s in which fractional-reserve banking played a decisive role. The unraveling of fractional-reserve banking became visible even to the average depositor during the financial meltdown of 2008 that ignited bank runs on some of the largest and most venerable financial institutions in the world. The final collapse was only averted by the multi-trillion dollar bailout of U.S. and foreign banks by the Federal Reserve.

Even more than the unprecedented financial crisis of 2008, however, recent events in Cyprus may have struck the mortal blow to fractional-reserve banking. For fractional reserve banking can only exist for as long as the depositors have complete confidence that regardless of the financial woes that befall the bank entrusted with their "deposits," they will always be able to withdraw them on demand at par in currency, the ultimate cash of any banking system. Ever since World War Two governmental deposit insurance, backed up by the money-creating powers of the central bank, was seen as the unshakable guarantee that warranted such confidence. In effect, fractional-reserve banking was perceived as 100-percent banking by depositors, who acted as if their money was always "in the bank" thanks to the ability of central banks to conjure up money out of thin air (or in cyberspace). Perversely the various crises involving fractional-reserve banking that struck time and again since the late 1980s only reinforced this belief among depositors, because troubled banks and thrift institutions were always bailed out with alacrity – especially the largest and least stable. Thus arose the "too-big-to-fail doctrine." Under this doctrine, uninsured bank depositors and bondholders were generally made whole when large banks failed, because it was widely understood that the confidence in the entire banking system was a frail and evanescent thing that would break and completely dissipate as a result of the failure of even a single large institution.

Getting back to the Cyprus deal, admittedly it is hardly ideal from a free-market point of view. The solution in accord with free markets would not involve restricting deposit withdrawals, imposing fascistic capital controls on domestic residents and foreign investors, and dragooning taxpayers in the rest of the Eurozone into contributing to the bailout to the tune of 10 billion euros. Nonetheless, the deal does convey a salutary message to bank depositors and creditors the world over. It does so by forcing previously untouchable senior bondholders and uninsured depositors in the Cypriot banks to bear part of the cost of the bailout. The bondholders of the two largest banks will be wiped out and it is reported that large depositors (i.e. those holding uninsured accounts exceeding 100,000 euros) at the Laiki Bank may also be completely wiped out, losing up to 4.2 billion euros, while large depositors at the Bank of Cyprus will lose between 30 and 60 percent of their deposits. Small depositors in both banks, who hold insured accounts of up to 100,000 euros, would retain the full value of their deposits.

The happy result will be that depositors, both insured and uninsured, in Europe and throughout the world will become much more cautious or even suspicious in dealing with fractional-reserve banks. They will be poised to grab their money and run at the slightest sign or rumor of instability. This will induce banks to radically alter the sources of the funds they raise to finance loans and investments, moving away from deposit and toward equity and bond financing. As was reported this week, this is already expected by many analysts:

One potential spillover from yesterday's agreement is the knock-on effects for bank funding, analysts said. Banks typically fund themselves with some combination of deposits, equity, senior and subordinate notes and covered bonds, which are backed by a pool of high-quality assets that stay on the lender's balance sheet.

The consequences of the Cyprus bailout could be that banks will be more likely to use contingent convertible bonds – known as CoCos – to raise money as their ability to encumber assets by issuing covered bonds reaches regulatory limits, said Chris Bowie at Ignis Asset Management Ltd. in London.

"We'd expect to see some deposit flight and a shift in funding towards a combination of covered bonds, real equity and quasi-equity," said Bowie, who is head of credit portfolio management at Ignis, which oversees about $110 billion.

If this indeed occurs it will be a significant move toward a free-market financial system in which the radical mismatching of the maturities of assets and liabilities in the case of demand deposits is eliminated once and for all. A few more banking crises in the Eurozone – especially one in which insured depositors are made to participate in the so-called "bail-in" – will likely cause the faith in government deposit insurance to completely evaporate and with it confidence in fractional-reserve banking system. There may then naturally arise on the market a system in which equity, bonds, and genuine time deposits that cannot be redeemed before maturity become the exclusive sources of finance for bank loans and investments. Demand deposits, whether checkable or not, would be segregated in actual deposit banks which maintain 100 percent reserves and provide a range of payments systems from ATMs to debit cards. While this conjecture may we overly optimistic, we are certainly a good deal closer to such an outcome today than we were before the "Cyprus deal" was struck. Of course we would be closer still if there were no bailout and the full brunt of the bank failures were borne solely by the creditors and depositors of the failed banks rather than partly by taxpayers. The latter solution would have completely and definitively exposed the true nature of fractional-reserve banking for all to see.

March 30, 2013

Joseph Salerno is academic vice president of the Mises Institute, chairman of the graduate program in economics at Pace University, and editor of the *Quarterly Journal of Austrian Economics*.

Good riddance to deposit 'insurance'

by Detlev Schlichter

Once the public furor and shrill media coverage have died down, it will become clear that events in Cyprus did not mark the death of democracy or the end of the euro, but potentially the beginning of the end of deposit "insurance." If so, then three cheers to that. It may herald a return to honesty, transparency, and responsibility in banking.

Let us start by looking at some of the facts of deposit banking: When you deposit money in a bank, you forfeit ownership of money and gain ownership of a claim against the bank -- a claim for instant repayment of money, but a claim nonetheless. In 1848, the House of Lords stated it thusly:

"Money, when paid into a bank, ceases altogether to be the money of the principal; it is then the money of the banker, who is bound to an equivalent by paying a similar sum to that deposited with him, when he is asked for it... The money placed in the custody of a banker is, to all intents and purposes, the money of the banker, to do with it as he pleases; he is guilty of no breach of trust in employing it; he is not answerable to the principal if he puts it into jeopardy, if he engages in hazardous speculation; he is not bound to keep it or deal with it as the property of his principal, but he is, of course, answerable for the amount, because he has contracted."

This is not legal pedantry or just a matter of opinion, but logical necessity. It follows inescapably from how deposit banking has developed, how it was practiced in 1848, and how it is still practiced today.

If ownership of the money had not passed from depositor to banker, then the banker could not lend the money to a third party against interest. He could not then pay interest to the depositor. If the depositor had retained full ownership of the deposited money, the banker would only be allowed to store it safely and to probably charge the depositor for the safekeeping of his property.

Money stored in a bank's vault earns as little interest as money kept under a mattress. It is evidently not what bank depositors contract for. If interest is being paid or "free" banking services are being provided, then the depositor must have at least implicitly agreed that the banker can "invest" the money, i.e., put it at risk.

For more than 300 years, banks have been in the business of funding loans that are risky and illiquid with deposits that are supposed to be safe and instantly redeemable. When banks fail, depositors lose money, although in former times, no rational person claimed that the depositors were unfairly "bailed in" (a bail-in is an agreement by creditors to roll over their short-term claims or to engage in a formal debt restructuring with a troubled country) or were the victims of "theft."

Although the mechanics of fractional-reserve banking have not changed in 300 years, the public's expectations have greatly changed. Today, banks are expected to lend more generously than ever while depositors are supposed to not incur any risk of loss at all. This means squaring the circle, but it has not stopped politicians from promising such a feat.

Enter deposit insurance.

State deposit "insurance" is not insurance at all. Insurance companies calculate and calibrate risks, charge the insured party, and set aside capital for when the insured event occurs. A state deposit "guarantee," by contrast, is simply another unfunded government promise extended in the hope that things won't get that bad.

Eventually, the state does what it always does, i.e., take from Peter to pay Paul. Cyprus is a case in point. Private insurance companies would have pulled the plug on a ballooning banking sector long ago. The Cypriot state, still the local monopolist of bank licensing and bank regulation, simply looked on as the banks amassed deposits of four times GDP.

In the end, Cyprus' government ran out of "Pauls" to stick the bill to -- and "Hans" in Germany refused to get "bailed in" completely (although he is still providing the lion's share of the bailout).

Cyprus is just an extreme example of what the institutionalized obfuscation of risk and accountability that comes with state-protected banking can lead to. Deposit "insurance" masks the risks and socializes the costs of fractional-reserve banking. Unlimited state paper money and central banks that assume the role of "lenders of last resort" have the same effect.

If the original idea behind these innovations was to make banking safer, it has not worked, as banks have become bigger and riskier than ever before, although I suspect that the real purpose of these "safety nets" has always been to provide cover for more generous bank credit expansion.

Under present arrangements, there is little incentive for banks to position themselves in the marketplace as particularly conservative. Depositors have been largely desensitized to the risks inherent in banking. They no longer reward prudent banks with inflows, nor do they punish overtly risky banks with the withdrawal of funds. And even if they do, the banks can now obtain almost unlimited funds from the central bank, at least as long as they have any asset that the central bank is willing to "monetize."

This is a low hurdle, indeed, as banks have become conduits for the never-ending policy of "stimulus" and are thus being fattened further for the sake of more growth. Once a bank has "ticked the boxes" and meets the minimum criteria of regulatory supervision, any additional probity would only subtract from potential shareholder returns. Our modern financial infrastructure has created an illusion of safety coupled with an illusion of prosperity, thanks to artificially cheapened credit. The risk of the occasional run on an individual bank has now been replaced with the acute and rising risk of a run on the entire system.

This would change radically if we reintroduced free market principles into banking. Bankers would again be answerable to all their lenders, including small depositors, who would no longer be lulled into a false sense of security. Rather, in their proper role as creditors to the banks, they would become "deposit vigilantes" and would help keep the banks in check.

In order to gain and maintain the public's trust, the banks would again have to communicate balance sheet strategy and risk management to the wider public, not just to a handful of highly specialized bureaucrats at the central bank or the state's bank regulator. Banking would become less complex, more transparent, and less leveraged. Conservative banking would again be a viable business model.

The wider public would begin to appreciate how dangerous the populist policies of cheap credit and naive demands for "getting banks lending again" ultimately are. The depositors would finally realize that they're underwriting these policies and that they carry the lion's share of the risks.

Nelson's Favorite Quotes

"When examining evidence relevant to a given belief, people are inclined to see what they expect to see, and conclude what they expect to conclude. Information that is consistent with our pre-existing beliefs is often accepted at face value, whereas evidence that contradicts them is critically scrutinized and discounted. Our beliefs may thus be less responsive than they should to the implications of new information."

How We Know What Isn't So: The Fallibility of Human Reason in Everyday Life by Thomas Gilovich

"Half the people you know are below average"
– Steven Wright

The Wonder Of Wonders

by Leonard E. Read

This world will never starve for the want of wonders, but only for want of wonder.
– G. K. Chesterton

What did this brilliant Englishman mean by "starve?" The answer, I believe, is to be found in the words of an earlier countryman of his, Robert Browning:

Which lack food the more,
Body or soul in me?
I starve in soul.

And "soul?" Again Browning: "God is soul, souls I and thou?" Translated into modern American idiom it reads, according to my dictionary, "….though having no physical reality, {soul} is credited with the functions of thinking and willing, and hence determines all behavior." This is to say that you and I will think and will our way through life according to the vitality of our respective souls; our behavior will reflect the health – or sickness – of the life within. What I wish to examine is the part that wonder plays in the evolution of the soul, and its vigor.

The way to bring this matter home is to reflect on how we behave when government pre-empts any activity, be it mail delivery, the aid to those in distress, or whatever. We cease to wonder how mail would be delivered were it not socialized, that is, left to the free and unfettered market. Likewise, with the alleviation of distress. Government has pre-empted that; we pay no heed and no longer wonder how Judeo=Christian charity works its wonders. We fall asleep in these and countless other governmental takeovers. Pre-emption of any activity is, except in the case of a few rare souls, the death of wonder!

When government pre-empts any activity or problem area, it thereby closes off that sector against further inquiry or entrepreneurial action – closes the market that otherwise would sift and sort and put to best use the infinite bits and pieces of knowledge in society.
Pre-emption by coercive takeovers account for no more than an infinitesimal fraction of the want of wonder. True, we cheer glamorous spectacles as observed in the first of the following verses but the lack of wonder is dramatically illustrated in the second verse:

> Fueled by a million man-made wings of fire,
> The rocket tore through the sky .. .
> And everybody cheered.
>
> Fueled only by a thought from God,
> The seedling urged its way
> through the thickness of black,
> And as it pierced the heavy ceiling of the soil
> and launched itself up into outer space …
> No one even clapped.

That seedling is but one of octillions times octillions – indeed, an infinity – of wonders in the Universe. Why, that seedling itself has wonders not remotely comprehended by man. The lack of wonder about Creation – Nature's mysteries – is appealing.

And no less appealing is the lack of wonder about what goes on among those of us who inhabit this earth. Let an electric light bulb come into existence and shortly it is commonplace, taken for granted. No longer any wonder about this fantastic phenomenon or the uniqueness of Edison. Wonder tends to die with familiarity!

Awakened during the night by a jet plane flying over my home, I wondered what would have been my reaction had I lived in Athens at the time of Socrates. Probably, "Good Lord, are the Heavens falling in!" A correct reaction, for that's precisely what's happening. Harken unto this; that jet plane has thousands of parts and not a person who lives knows how to make a single one of them – any more than anyone knows how to make a pencil! And a jet plane resembles that seedling in that it is but an infinitesimal fraction of the goods and services by which we presently live and prosper. There is no lack of wonders, only a dearth of wonder.

Let there be no want of wonder about all things in Creation. Wonder in itself is an acknowledgement of one's finite status, the pleasant remedy for disastrous know-it-all-ness and stagnation. Wonder inspires the will to grow and, thus, adds vigor to the soul. Wonder and the spirit of inquiry to hand-in-hand. It is the fountainhead of entrepreneurial action – creativity at the human level. The power of wonder is sublime!

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

Contagious: Why Things Catch On by Jonah Berger

The Illusion of Wealth Ludwig von Mises on the Business Cycle

edited by Robert Murphy
Laissez Faire Books, 2013.
Editorial preface by Jeffrey Tucker; Foreword and notes by Robert Murphy

Ludwig von Mises: Real vs. Paper Wealth

Ludwig von Mises (1881–1973) is the economic theorist who did more than anyone to sweep away the mystical view that business cycles just happen to us, like bad weather and aging. He brought scientific logic to bear on the problem. He drew on the fields of money, interest, capital theory, and international capital flows to map out a general theory of what causes business cycles, the parameters of how they play out in the real world, and how they might be ended.

With an economy addicted to credit expansion and absurdly low interest rates (not even Mises could have foreseen zero or negative rates!), we all wonder what is real and what is not. The book gives us the tools to make that discerning judgment.

Mises' general idea is that cycles begin with loose credit provided by a banking system that is protected from facing the economic consequences of unsound lending by the existence of the central bank. The boom turns to bust when the resources to sustain it go missing.

In a market, banks want to lend; they are restrained by risk. Government guarantees encourage risky lending. Artificially low interest rates — always cheered by indebted governments — signal to borrowers that there are more savings in the system than really exist. Business in particular expands production in a way that is unsustainable. This loose money policy creates a boom — the illusion of wealth — that is not justified by economic fundamentals. The correction takes place when the illusion of wealth is revealed in the course of time, kicked off by tightening credit or when the boom times are tested by reality.

In the 1920s and the first half of the 1930s, Mises' view came to be almost commonplace in the English-speaking world, mentioned and discussed by the mainstream as the top contender. After World War II, the theory ended up being stamped out by the newfound faith in macroeconomic planning, with John Maynard Keynes as its leading prophet.

Today, that faith in macroeconomic management is now at another low point, but the baseline assumption that business cycles have a psychological origin is still with us. As Robert Murphy explains in the introduction, the goal of this book is to provide the most coherent possible explanation of the entire theory from its roots to its conclusions.

Mises begins with a discussion of money. It is not neutral to every transaction, affecting all prices in all places the same way. Changes in purchasing power of money are a feature of normal market activity. There is no such thing as perfect stabilization. Prices change as human valuations change. Money is nothing but a medium of this interpersonal exchange. Prices are objective, but value is subjective, an expression of people's eagerness to acquire goods and services.

Money makes possible economic calculation. This is the ability to assess and truly measure the economic merit and viability of anything. All the technology, all the discoveries, all the laboratories and manufacturing in the world are useless without the ability to calculate profit and loss. The capacity to calculate and assess the relative merits of various production paths is the key to unlocking every innovation and making it real. Without the ability to calculate, society itself would crash and burn. This is the social function of prices. Nothing can substitute for them (not central planning or engineering or intuition). Prices are building blocks of civilization and require private property and markets for their emergence.

Increasing the amount of money in an economy does nothing to brush away the problem of economic scarcity. Money is merely a tool for calculation. Producing more of it only changes its purchasing power and distorts decision-making. It does nothing to make speculation more or entrepreneurship more or less successful.

Appearances to the contrary ("This whole generation is great at investing!"), the seeming prosperity is illusory and indicates a false boom. New money only ends up hiding incompetency and delaying the day that it is revealed. The only vehicle for authentic economic progress is the accumulation of additional capital goods through saving and improvement in technological methods of production.

In a market, entrepreneurs can profit or they can take losses. Errors result in losses and success results in profits. There is, in a market economy, no systematic tendency for one tendency to prevail over others.

False prices are checked by competition. Errors are never general and social. They are specific and cleared away when discovered. "The market process is coherent and indivisible," writes Mises. "It is an indissoluble intertwinement of action and reactions, of moves and countermoves." But there is no such thing as a general underconsumption in markets, as Keynesians like to believe.

Conventional economic modeling cannot capture the time horizons of millions of capitalist investors and producers. The real-world structure of production

includes production plans of one day or 50 years or several generations. What allows coordination between these many plans are markets with free-floating prices and interest rates that respond to real savings and the actual plans of entrepreneurs and capitalists. Interest rates themselves reflect the time horizons of the public. They fall when people save and rise when people prefer consumption over saving. The loan markets reflect these varying plans.

When the central bank lowers rates, it creates "forced saving" — the appearance, but not the reality. Forced saving causes an inflow of resources to capital goods industries, because investors make longer-term plans. It looks like capital expansion. It is really what Mises calls "malinvestment" — meaning bad investment in lines of production that would not otherwise take place.

The reality is that all credit expansion tends toward capital consumption. It falsifies economic calculation. It produces imaginary or only apparent profits. People begin to think they are lucky and start spending and enjoying life. They buy large homes, build new mansions, and patronize the entertainment business. These activities all amount to capital consumption.

Credit expansion also raises wage rates in a way that is not sustainable. Entrepreneurs become addicted to expansion in order to enlarge the scale of their production. This requires ever more infusions of credit. The boom can last only as long as the system expands credit at an ever-increasing pace. When this ends, the plans stop too and business starts selling off inventory, wages fall, and the economy begins to fall into recession. Mises describes this as the collapse of an "airy castle" — something beautiful that has no substance.

Artificial credit expansion doesn't always produce price inflation. When it does happen, inflationary expectations can cause a general tendency to buy as much as can be bought. That can lead to the crackup of the whole of the economy. At the same time, the effects of inflation can be disguised as rising stock prices or increasing home values. But it always leads to relative impoverishment. It always makes people poorer than they otherwise might be. But Mises specifies something very important here. It doesn't mean society will revert exactly to the state it was in before the boom. The pace of capitalistic expansion is so great that it has usually outstripped the "synchronous losses" caused by malinvestment and overconsumption.

10 Takeaways

1. Economic calculation is indispensable to the creation of society and civilization; it is what unlocks and applies all-over knowledge discoveries.

2. Prices are true and functioning only in a market economy with private property and competitive markets.

3. Production processes take place over time, with each capitalist forming a different time horizon and configuring plans based on that.

4. Artificial increases in the money supply, released through the banking system, lower the rate of interest. This is akin to forced savings.

5. Forced savings accelerate the pace of economic progress and the improvement in technology, but this is unsustainable.

6. Credit expansion makes some people richer and some people poorer, but it can never raise the standard of living of the whole of society. It causes

people overall to be poorer than they would otherwise be.

7. There is nothing wrong with falling prices. That is the natural state of the market.

8. The "wavelike movement" of the economy is the unavoidable outcome of the attempt to lower the market rate of interest by means of credit expansion.

9. All present-day governments are fanatically committed to an easy money policy.

10. The moral ravages of credit expansion are worse than the economic ones. It creates feelings of despair and frustration and discourages people who would otherwise be excellent inventors, workers, and investors.

Why does a good theory of the business cycle matter? Understanding the process as it unfolds helps reveal the source of the problem, which is not in our heads or hearts or in some other strange force of history, but more specifically in the government-protected banking cartel. In short, it is not the market that deserves the blame, but the interventions in the market. This theory helps in assessing whether reforms are geared toward fixing the problem or making more problems. For example, further regulation of the monetary and banking systems is not likely to do much toward addressing the underlying cause of the business cycle.

Number Thirty-Six 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 IV, Lesson 36: Equipment Financing continuation

Content: Page 64, *Becoming Your Own Banker: The Infinite Banking Concept®* Fifth Edition, Sixth Printing

There are so many things our logger can do to improve his situation – it is hard to decide where to start! The most obvious one is to buy more life insurance to build the system big enough to accommodate all his needs for financing. After all, his total monthly payments to the finance company were $16,000 per month at the start of this story and he has moved only $9,000 to the correct side of the "Great Wall of China."

At this point he is only about 60% efficient. He needs to expand the system to accommodate the other $7,000 per month. In fact, he should have had the foresight to do this at about the 8th year in the schedule we have been studying.

For another improvement, turn to page 56 in the book and look at item 4 -- INSURANCE. The finance company can require him to have collision and comprehensive insurance on the truck – but they cannot make him do business with the dealership where he bought the truck. Of course, the dealer would like to sell him the insurance and finance the premium, too!! But, notice that all the blanks have N/A in them. That means he is doing business with an insurer of his choice. Further investigation – not shown – reveals that he is paying $2,100 per truck per year for $1,000 deductible. That's a total of $8,400 per year for all his trucks.

Please tell me – has anyone ever seen a logging truck in a body shop?

Why would anyone ever steal a logging truck? What in the world would you do with it? It would be pretty easy to trace. Yet, this is all part of the picture when he uses a finance company.

With that in mind, look at the cash value on page 64 at the end of the 12th year – it is $365,675. At this point he can self-insure for comprehensive and collision coverage. After all, what did the C&C insurance company do to start their company? They got actuaries who played the game of "what if" as it relates to the probability of an accident in a logging truck. Then they got rate makers who determined the premium that was necessary to make it all work. Then they got lawyers who made legal and binding, unilateral contracts. And then, they got agents to sell those contracts to people like our logger.

Do you realize that, once you have a significant sum of cash values in life insurance, you have all the ingredients of a C&C company except premium pricing. All our logger friend has to do to be in the C&C

insurance business is to call one of those companies and get a quotation as to what they would charge for such coverage. If that figure is $8,400 per year then he needs to pay his own life insurance system $10,000 per year in order to self insure. Remember the extra two cents for the can of peas at the grocery store? Now he is making what the banking business used to make from him plus what the insurance company was making. And it is all on a tax-free accumulation basis.

But, there is a problem – the policy on page 62 won't hold this extra $10,000 per year. He needs to buy more life insurance to accommodate this extra money.

For a look at another improvement possibility, go to line 2 in the Net Cash Value column on page 62. It shows $65,282 must be lent by the insurance company to some borrower. Our man could make a $52,600 policy loan at this point to finance the first truck. If he did so and made the payments of $18,000 per year plus continuing to make the premium payments of $40,000 to capitalize the system – then all the figures below this point in the schedule would improve. That's because he would be cutting the finance company out of the pattern earlier and directing that financial energy to his benefit.

What's more – he could arrange with the insurance company to "back date" the starting date of the policy to 6 months ago. That means that he could make a $40,000 premium payment now, and 6 months from now make another $40,000 payment. One year from that date he could be using his system to "cut the bleeding" to the finance company. Remember, the earlier you start a life insurance policy, and the longer it is in force, the more efficient it gets.

There are more improvements that he can make just by thinking and using his imagination, but we are running out of time and will have to save those items until the next lesson. In the meantime, see it you can think of any ways to do so.

Nelson's Live Seminars & Events for May-June 2013
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. 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 by ***IBC Practitioners***, 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.

1. *Nelson Live in Birmingham, AL,* 11 May
   Register here: http://www.fireyourbankertoday.com/banking-blog/?p=85/
   For additional information, please contact Stacy Brasher
   stacybrasher@nowlinandassociates.com
   205-871-9993 ext 248
2. *Nelson Live in Boston Area,* 17-18 May
   Contact Nancy Jackson
   nancy@bcbstexas.com
   254-582-3565
3. *Nelson Live in Atlanta Area,* 23-24 May
   Contact Scott Chapman
   Chapmanscott@att.net
   478-521-0856
4. *Nelson Live in Gulf Breeze, FL,* 14-15 Jun
   Contact Jerry Wood
   amigos@gulftel.com
   251-964-4901