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# IBC: THE GOOD, THE BAD AND THE UGLY

by L. Carlos Lara

**SIMPLICITY is elusive.**

Nothing in recent years has convinced me more of this fact than attempting to explain the ***Infinite Banking Concept (IBC)*** to others. When I consider the number of years it took me to finally understand it, I wonder if its simplicity is not perhaps the real source of its difficulty. ***It is so simple it makes no sense!*** But, of course, that's not it at all, there is much more to it than that. IBC involves matters having to do with money, credit and how it flows in the entirety of our economy. Those particular elements have never been simple for anybody.

Nelson Nash, originator of the concept and author of the book that started it all, has made it very clear that he did not write his book for the financial professional, but instead for the ***average*** American—***the middle class***. What is important to realize is that this sector of the economy for the most part is in a state of utter confusion when it comes to matters of money and finance. In the past thirty years this group in particular has suffered through some of the worst periods of chronic inflation and economic upheavals this country has ever experienced. This progress of inflation, coupled with onerous taxation and erratic market volatility has served to deprive these masses of their savings and made them desperate. Therefore, it is not surprising that Nelson's book should surge in popularity at this crucial time in American history. Finally, here appeared a book for the general public with a strategy that beat the system at its own game and promised individuals financial prosperity once again. By the time the 2008 financial crisis hit, life insurance companies began reporting dramatic increases in the sale of dividend-paying whole life insurance not seen in decades, while banks and Wall Street were in the tank. A 200 year-old product was suddenly back in the limelight, but it was not a coincidence. This just so happens to be the one financial product that is at the heart of Nelson Nash's concept. Obviously, the IBC book, ***Becoming Your Own Banker***, and Nash's seminars had gotten the public's attention and made them take action.

**Insurance**

One very important detail that should not be overlooked is that Nash is an expert in life insurance. His kind of professional has long since retired from the business or they are not even on the planet anymore. They are deceased! At 82, he has spent enough time in the industry to experience personally how the public's view of insurance has changed and knows exactly why those changes occurred. Prior to 1960 whole life insurance was the very best place to put your money, along with bonds and savings accounts. This is because Whole Life's multi-dimensional benefits made it superior to any other financial product on the market at that time and virtually every household in America owned a policy. Whole Life, the workhorse of the insurance sector, had take Americans safely through the Great Depression of the 1930s, so it was a well-known financial product. The growth on these policies admittedly was slow, but it was steady and most importantly, secure—***like cash underneath your mattress!*** But then the stock market reemerged. Driven by government inflationary policy, the need and desire to speculate changed everything. The

nation soon turned away from traditional ***savings*** to wildcat ***investing*** as the primary method to build wealth. Fifty three years later an entire generation of conservative savers who understood the value of dividend-paying whole life insurance and how it worked died out, as did knowledgeable insurance agents. Left behind is today's venturing generation who understand only one thing, ***"buy term insurance and invest the difference."***

The mind for saving money the old-fashioned way closed. Even today the fact that IBC involves insurance at all is still its single most persistent impediment to its understanding. People simply cannot clear their heads enough from the distractions of investing and an extreme focus on interest rates of return to view it with an open mind. Yet, Nash realizing this problem did something very ingenious in the way he wrote his insurance book, in a manner which only an ardent student of Austrian economics could have done (let's not forget that he is an expert in both). He dared to compare dividend-paying whole life insurance to that of one's own ***private bank*** and because he did that his concept cannot be easily dismissed. One is drawn into the study of the two institutions, banking and insurance, simultaneously. Even the great Austrian giant, Ludwig von Mises, had once stated, ***"in America the insurance companies were the biggest moneylenders."*** So in effect, in reading Nash's book we are forced to see not a product, but a process—***a process of money flow***. The more one learns about the banking system and how it works the clearer his IBC concept becomes.

Every financial advisor, attorney, or certified public accountant should be keenly aware that monetary policy dramatically affects our taxes, savings, and investments. In light of this knowledge the whole life product should be the most logical choice to headquarter one's money, but the reason the experts do not consider it is that very few experts know anything about it. Most of the 2,000 or more life companies do not even carry the product so even life insurance agents who should be the first to know are in the dark.

In this sense, Nelson's book in the hands of the general public or untrained agents can lead to potential problems. This is the only ugly side of IBC. We must realize that the product Nash describes is of a certain kind, with a special design. Without these prerequisites it doesn't work in the manner he prescribes. Further, life insurance companies do not train agents as they once did. It has become cost prohibitive. When the stock market and investing came into vogue, insurance companies out of necessity in order to meet consumer demand launched several insurance products tied to the stock market just to maintain their competitiveness in the financial services industry. According to Nash these types of insurance products will not work as vehicles to implement IBC. How, then, do you control the co-mingling of such insurance products with IBC? It is for this very reason that Nelson Nash, David Stearns (CEO of the IBC organization), economist Robert Murphy, and I created the Authorized IBC Practitioner's Program. Among other things it is specifically designed to protect the general public and the integrity of the IBC concept from such abuses. Financial Advisors wishing to use IBC in their practice must sign a contract with the Infinite Banking Concepts organization specifically to prevent these types of problems from arising. Further, Advisors are required to study the IBC Practitioner's Manual and pass a proctored exam on not only IBC's theory, but also the fundamentals of Austrian economics. This sets this program completely apart from other course curricula and makes it unique. As a result, the general public wanting an IBC policy can find qualified and authorized IBC Practitioners by simply going to the Infinite Banking Institute's Agent Finder at https://www.infinitebanking.org/finder/.

**Money at Risk**

As a spokesman of the concept I am often asked questions concerning IBC that cover the gamut. Does IBC make sense? Am I too old to be insured? Is it affordable? Should I liquidate my securities or qualified plan to fund an IBC policy? How many loans are appropriate? Is there a case of too many loans that lead to a taxable event? The list of questions can be varied and extensive. IBC is spreading throughout the country and people genuinely want to know what it is all about. Unfortunately it can be difficult to explain

for the reasons already cited. Permanent life insurance is not easy to understand and coupled with the IBC component, it can all get immensely confusing. So, before answering it's important to remind myself of this and respond in a way that first gives the inquirer the broadest explanation of whole life's multi-faceted benefits. By doing so I stand a better chance of being understood. If you are reading this perhaps this article will be helpful.

For example: Recently I had the opportunity to visit with a couple, friends that I have known for some time, to talk over their future. Their wills and estate documents were all in order. She is already retired and he wants to retire this year, but does not know if he can. They have over $1.5 Million accumulated and parked in several places, no mortgage payment; there is some pension income for each of them in retirement, plus their Social Security checks. Each has a $500,000 whole life policy covering each other's life, but no heirs. After careful study of their entire financial situation three problems clearly stood out.

1. First of all, their current expenses exceed their pension and estimated Social Security income. This deficit is expected to rise due to inflation. In other words, already before they retire they have a cash flow problem.
2. Secondly, their $1.5 million accumulated assets are not providing enough income to cover the cash flow shortfall. Believe it or not, this is a common story of many Americans today. They have assets, but not enough income.
3. The biggest problem is that over $500,000 of the total assets accumulated is in mutual funds with half of that number in qualified funds tied to the stock market. Consequently, if the stock market were to crash today, or in the near future, their hopes of retirement are wiped out in one fell swoop. Already I have witnessed this sort of thing countless times so I cannot help seeing this money ***at risk.*** There is no other expression for it. You can't be in the stock market at the same time you plan on retiring without taking on huge risks with your money, especially these days.

There is a solution, of course, but without getting into that specifically, the bright spot in their financial plan are those insurance policies. I found that there was $200,000 in cash value inside them; that money resides in a tax beneficial environment that can be accessed in the form of loans without tax consequences. All that is necessary is a simple request to the insurance company. The money is contractually guaranteed by the financial strength of the insurance company and the ratings on the company are solid. It is creditor protected. It is liquid and free of market volatility. The rising death benefit acts as an inflation hedge while the premiums are contracted to stay the same as time marches on. The policies are transferable and easy to manage. They earn annual dividends that calculate to a reasonable and competitive annual rate of return. They are free from penalties and fees. The product is reputable and private—my friends have never received a 1099 since they've had these policies. Above all, those death benefits are huge assets and represent a form of permission for this couple to spend down $500,000 of their assets in retirement ***if*** they have to. ***And, all of this isn't even IBC!*** This is merely the ***infrastructure*** of IBC. It is dividend-paying whole life insurance.

**You Can't Do This With A Savings Account!**

IBC is more like a cash flow system inside a bulletproof environment—a financial bunker for scary times. But even under normal circumstances it is an excellent form of ***privatized banking***. Here is another real life anecdote involving my wife, Anne, which may help to explain what I mean. Anne and I keep separate bank accounts and she is in charge of paying most of our household expenses. Recently she didn't have the cash to pay our $6,500 in property taxes, which were due. Knowing that she owns a whole life policy on my life that has a substantial amount of cash value in it, I suggested she borrow the money from her own bank. ***"How do I do that?"*** she asked. ***"Just call up the insurance company and tell them you want your money,"*** I replied.

You see, even though Anne has known about IBC for years she had never really worked the process herself and she needed that experience to fully

understand it. She happily reported that she had filled out only one form, very conveniently online, and had the $6,500 in 3 days. The insurance company used $6,500 of her cash value as collateral and lent her the money at 5% interest. If she had used her credit card she certainly could have had the money faster, but she knew better than to go into debt that way. This method suddenly started to make a lot more sense to her. She had a legitimate emergency and her money was available to her when she needed it. Would she pay it back? — of course! It made perfect sense to do so. This tax bill would come around next year and she had already planned on doing this again so she set up a payment schedule to pay the principal and interest back to the insurance company in one year.

Many skeptics might easily dismiss this as nothing more than a silly exercise claiming that you could easily do this with a savings account. They would see it as nothing more than forced savings by those that are financially inept. But wait a minute; you would be more foolish trying to do this sort of thing with a savings account at a local bank. If what happened in Cyprus recently has not convinced us not to stockpile substantial amounts of money in commercial banks, then simply consider a scenario whereupon making her second savings deposit, Anne were to drop over dead of a heart attack. How much money would be in her bank's savings account then? The answer is two deposits of roughly $1,000 while with the IBC strategy the entire death benefit of $500,000 would be paid over to me, income tax free. Since I have a policy on her life, if I were in her shoes in this example, the reverse would happen and she would be paid the benefit. Forget term insurance to come bail us out, Anne is 65, and her term policies expired long ago (as have mine). What she did and how she did it makes perfect sense and ***no, you can't always do that with a savings account.*** You see, this is the main point, in our attempt to understand IBC we must always keep in mind the permanency of the whole life product in conjunction with all of its wonderful benefits as being the platform of privatized banking.

**Conclusion**

Try as you may, attempting to figure out how to be your own banker using other means, such as 401k's, IRA's, or any other similar structures including bank accounts, is a useless exercise once you understand how dividend paying whole life insurance works. You realize why Nelson Nash endorses this, and only this product for IBC. Furthermore you will see why Nelson Nash strictly instructs his followers that all policy loans should be repaid and insists that you grow wealthier if you pay back more. This coincides with his admonition that IBC policies should be taken out from mutual insurance companies wherever possible where the policyholders are the owners of the mutual. In this sense, you are sure to be paying it back to your own system. But, even if you didn't, and only paid back the loan and its interest in the simple way my wife did, your policy's cash value still grows. This happens because dividend-paying whole life insurance is actuarially designed to reach a known dollar destination during the life of the policy, therefore, no matter what happens economically on the outside, inside the policy it can only move forward toward that known target—***never backward.*** With all of its attributes as elaborated here in this article, and this one special growth caveat, dividend-paying whole life is the perfect warehouse for one's money.

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## Nelson's Favorite Quotes

*The only real difference between Wall Street and Las Vegas is that Wall Street is in New York City on the Atlantic Coast and Las Vegas is in the Southwest Desert of Nevada* – R. Nelson Nash

*Few people are capable of expressing with equanimity opinions which differ from the prejudices of their social environment. Most people are even incapable of forming such opinions.* – Albert Einstein

## Pro-Union, Crony-Capitalist Thinking Dooms Another Employer

by Christopher Westley on October 16, 2013

It's an old story. A manufacturing plant in a small town announces an impending closing, threatening to devastate the local economy and the many families that depend on it. Panic ensues, and politicians intervene. There's a sense of injustice in the air. Can anything be done?

Although this scenario played itself out many dozens of times in the area now known as the Rust Belt, it was set in motion last week in Northwest Alabama with the announcement that International Paper planned to shutter its largest manufacturing facility in the world — a massive, 42-year-old paper mill in Courtland with more than 1,100 employees, including maintenance workers earning wages that range between $20 to $32 an hour. These were good jobs — if you could get into the union and if paper demand was sufficient to keep those workers productive enough to justify the union wage.

The problem is, the demand fell as communication became more electronic, causing a business model that fit the 1970s to become unworkable in the 2010s. There is much that should be learned from this event, and as much as I feel for the people in Lawrence County whose lives will be upended by it, I'm afraid the lessons will not be heeded.

The first lesson applies to the nefarious influences of the economic development offices that exist in every state and compete with each other for large manufacturing employers. This state's plucky EDO, the Alabama Development Office, is considered by many to be the gold standard in this area, leaving states like New York and California in the dust while enabling firms like Airbus, ThyssenKrupp, Mercedes, and Hyundai to establish major operations in the state's politically favored regions.

The trade-off is that the millions of dollars and incentives that go to these firms come from conscripted funds that would otherwise be directed privately in the form of investment or consumption. These unseen effects include investment projects foregone — perhaps in Lawrence County itself — in order to fund the EDO's redistributive policies. Forcing taxpayers to finance economic development, as opposed to allowing savers to direct their resources to projects they believe will reflect their highest valued use, highlights the contrast between violent means of the government and the peaceful means of the market. Crony operations such as economic development offices exist at the expense of the latter.

Adding insult to injury, EDOs also create a sense of entitlement, even on the part of those entities not favored by the political players who run them. We're seeing this in Alabama, where workers and politicians have called for the state to intervene to stop International Paper from shutting down, arguing that if conscripted capital partly financed the Honda plant in Lincoln, why can't it also save paper jobs in Northwest Alabama? They forget, however, that International Paper does not exist to maximize employment or wages but to satisfy consumer demand, and that corporate graveyards are filled with firms that lost their focus on the latter.

The second lesson applies to the union labor force that enables their employees to earn more in wages than their individual productivity contributes in the form of revenues to the firm. When this happens, firms lose money by employing such labor, and since labor laws overwhelmingly support the worker over management, companies often have no recourse other than to shut down operations when economic forces turn against them.

Would the Courtland plant remain open if workers were allowed to accept reduced hours or wages more in line with the demand for its output? We'll never know.

The last lesson is that any economy, and especially small local economies, should never become dependent on one or a few employers. The problem is that large, unionized operations such as International Paper's often have the effect of scaring away capital

investment over time.

As a result, economies become less diversified and provide poor work opportunities for future generations of workers. This phenomenon explains not only why International Paper's arrival in Courtland in 1971 may have proved to be its death knell in 2013, but also why Rust Belts happen in the first place.

How different life might be for International Paper employees today if they had other work options in and around the Tennessee Valley. (The message for possible long-term effects of unionizing labor in Tuscaloosa County is obvious.)

Painful lessons like this one are avoidable when business plans and policies do not violate economic laws, when governments refrain from favoring certain forms of capital or labor over others and when firms remain free to adjust their operations in response to changes in the overall economy. When this is the case, old stories like the one coming out of Courtland will be told far less frequently.

Note: The views expressed in Daily Articles on Mises.org are not necessarily those of the Mises Institute.

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Comment by R. Nelson Nash – *Around 1905, Gifford Pinchot, the first United States Forester, predicted that our country would "be out of timber resources in only two generations." Now, there is a disappearing market.-- so much for the predictions of government bureaucrats!!!*

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

## Is Wall Street Really the Heart of Capitalism? Blaming the Wrong People for 2008

by Doug French

The other night, I tuned into *The Flaw*, a 2011 documentary about the 2008 financial crash.

While telling the crash story, the movie flashes in and out of a street tour offered by an ex-mortgage bond trader. The young man has the required effervescence to keep a dozen tourists entertained while they look at nothing more interesting than office buildings. He cleverly lets members of his tour touch a toxic asset. Well, a page of the legal document of a collateralized debt obligation (CDO), anyway.

The camera pans to tourists taking pictures next to *Charging Bull*, the 7,100-pound bronze sculpture closely associated with Wall Street. The guide starts his tour saying what has become a worn out cliché. "Welcome to Wall Street; this is the heart of American capitalism."

But is Wall Street really the heart of capitalism?

If we understand capitalism as a social system of individual rights, a political system of laissez faire, and a legal system of objective laws, all applied to the economy with the result being a free market, is Wall Street really capitalist?

The laws that govern the securities industry start with the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, the Investment Company Act of 1940, The Investment Advisors Act of 1940, the Securities Investor Protection Act of 1970, the Insider Trading Sanctions Act of 1984, the Insider Trading and Securities Fraud Enforcement Act of 1988, the Private Securities Litigation Reform Act of 1995, and the Sarbanes-Oxley Act of 2002.

Of course, all of these acts weren't enough to prevent the crash of 2008, so we now have the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the Jumpstart Our Business Startups Act of

2012. That seems like a whole lot of regulating for something that's supposedly a capitalist marketplace.

Back when lawmakers were pithier in writing legislation, the Securities Exchange Act of 1934 ran 371 pages. Dodd-Frank totals 848 pages. This mountain of paper and regulation is anything but laissez faire. Thousands of government employees are charged with enforcing these byzantine rules. Does this sound like the deregulated, Wild West Wall Street we're told brought the nation to its knees?

When investment banks Goldman Sachs and Morgan Stanley were in danger of failing in September 2008, they applied to become commercial banks; their applications were quickly approved. Even in the boom times, bank charters normally took a couple of years to be approved. Now it's impossible. The last *de novo* charter was approved in the fourth quarter of 2010.

While *The New York Times* made a big deal of the additional regulations the banks would have to endure, these banks were rescued as the FDIC insured their deposits, stemming a possible run. The change also allowed the banking behemoths to borrow from the Fed against a wide array of collateral. No one can call this "survival of the fittest" capitalism.

Much of the business on Wall Street is bond business. As of a couple years ago, the bond market totaled $32.3 trillion. Just over half this market is corporate, mortgage, and asset-backed bonds. Government, municipal, and agency bonds make up 44% of the market.

The trading of government and mortgage bonds can be considered capitalism, but the instruments traded certainly aren't the spawn of free markets.

The 30-year mortgage would not exist without government. Before the Depression, home loans were short term. Residential mortgage debt tripled during the roaring '20s, however, and "much of this financing consisted of a crazy quilt of land contracts, second and third mortgages, high interest rates and loan fees, short terms, balloon payments, and other high-risk practices," explains Marc Weiss in his book *The Rise of the Community Builders*.

Mortgage lenders would often lend only 50% of a home's cost and often for only three years. But from the National Housing Act of 1934 emerged the Federal Housing Administration (FHA), with the intent being to regulate the rate of interest and the terms of mortgages that it insured, or in the words from the FHA's first annual report, "to bring the home financing system of the country out of a chaotic situation."

The FHA standardized housing and financing through its *Underwriting Manual*, which required homes to be built and financed by the book. The FHA initially insured mortgages for 20 years at 80% of cost. This was eventually increased to 30-year, fully amortizing terms and 97% loan to cost.

The FHA believed its appraisal process would expose inflated values and risky properties. Of course, the agency would claim not to dictate development practices. "The Administration does not propose to regulate subdividing throughout the country," the FHA's 1935 handbook *Subdivision Development* claimed, "nor to set up stereotype patterns of land development."

However, the handbook's very next sentence states, "It does, however, insist upon the observance of rational principles of development in those areas in which insured mortgages are desired."

James Moffett, who headed the FHA in 1935, said his agency, by guaranteeing mortgages, "could also control the population trend, the neighborhood standard, and material and everything else through the president."

After World War II another mortgage guarantee program was born so war veterans could more easily obtain credit. The U.S. Department of Veterans Administration (VA) loan program started modestly, guaranteeing only 50% of a loan up to $2,000 for 20 years. Today, veterans can borrow up to 102.15% of a home's sales price.

Fannie Mae was created by the government in 1938 to provide a secondary market for mortgages. After the

Civil Rights Act of 1968, the government established Ginnie Mae to buy FHA loans originated as a result of the Fair Housing Act. In 1970, Congress authorized Fannie Mae to purchase conventional mortgages and chartered Freddie Mac to also purchase mortgages under control of the Federal Home Loan Bank Board.

Fannie and Freddie were taken over by the government during the financial crisis, and the FHA is in financial trouble.

Every modern president has been foursquare behind home ownership. In 1994, Bill Clinton's HUD Secretary Henry Cisneros rolled out the National Homeownership Strategy that championed looser loan standards.

Ten years later, George W. Bush said, "If you own something, you have a vital stake in the future of our country. The more ownership there is in America, the more vitality there is in America, and the more people have a vital stake in the future of this country."

Ironically, at the height of the housing bubble, government backed fewer than 40% of mortgages. Since the crash, as Jesse Eisinger wrote for ProPublica last December, "With little planning and paltry public discussion, the government has almost completely taken over the American home mortgage market."

"It is creeping nationalization," says Jim Millstein, an investment banker who worked in the Obama administration's Treasury Department as the chief restructuring officer.

Speaking just weeks ago in Phoenix, the current president laid out five steps to heal the housing market and promote homeownership. The president urged Congress to pass a bill allowing every homeowner to refinance at today's low interest rates. Second, he said, "Let's make it easier for qualified buyers to buy homes they can."

Reforming immigration, putting construction workers back to work, and creating adequate rental housing were also part of the president's pitch.

Defending the 30-year mortgage in *The Washington Post*, Mike Konczal writes, "It would be nice to imagine that the 'free market' will just take care of this issue. But remember that the housing market is created through a huge web of government policy."

And if there wasn't enough government involvement in the housing and mortgage markets already, the Federal Reserve's third round of quantitative easing (QE3) policy consists of the central bank purchasing $85 billion per month of Treasury and mortgage-backed securities.

Since its founding 100 years ago, the central bank's manipulation of interest rates has distorted asset values and misdirected capital, working contra to where free markets would funnel resources.

Near the end of *The Flaw*, tour guide Andrew Luan is asked if he feels any responsibility for the financial crisis. He looks away from the camera nervously and contemplates. While he doesn't answer verbally, the cheerful tour guide's face becomes etched with guilt.

However, Mr. Luan has nothing to be sorry for. People want to direct their anger at Wall Street and blame the crash on investors and traders. But Wall Street is not synonymous with capitalism and markets. It was government intrusion and regulation over many decades that caused the crisis. We know this. Yet the counternarrative persists in the public mind.

Sadly, rather than get out of the way, increased government interference keeps capitalism from doing its regenerative work. This keeps the crisis fresh in people's minds, the search for scapegoats heated, while the punk economy lingers.

-- Doug French

Article originally appeared in www.fee.org.

*Comment by R. Nelson Nash -- So, Washington calls "having a title to a house" – yet with a lien that is greater than its value – "home ownership?" Herein, lies our problem. They change the meaning of words and the American public doesn't call their hand on it. Ownership doesn't occur until there is no debt against the property! The fact that we elect "representatives" that deceive us like this is unbelievable!*

# Was Friedman Right About Rothbard on Collapsing Banks?

by William L. Anderson on August 27, 2013

While economics supposedly is a science involving logic, it seems to me these days that prominent economists pursue their points by employing logical fallacies. Thus it was that recently I came upon a blog post by Paul Krugman in which he uses a 1999 Milton Friedman interview to attack the Austrian business cycle theory.

The logical fallacy is called *argumentum ad auctoritatem* or "appeal to authority" in which someone cites a statement from someone considered to be an authority on a subject, thus claiming that a certain point of view *must* be true because the authority said it. In his blog post, Krugman attempts to use the Friedman statement as part of *deductive* reasoning, taking the following from a Hoover Institution interview:

> I think the Austrian business-cycle theory has done the world a great deal of harm. If you go back to the 1930s, which is a key point, here you had the Austrians sitting in London, Hayek and Lionel Robbins, and saying you just have to let the bottom drop out of the world. You've just got to let it cure itself. You can't do anything about it. You will only make it worse. *You have Rothbard saying it was a great mistake not to let the whole banking system collapse.* I think by encouraging that kind of do-nothing policy both in Britain and in the United States, they did harm. [Emphasis mine]

Before analyzing the Friedman statement, let me first note that Krugman is trying to fashion the following argument: If *Milton Friedman* objected to the Austrian business cycle theory, then it must be wrong because Friedman was an advocate of free markets. Now, I doubt that Krugman would have agreed with anything else in the interview and would have been more-than-happy to claim that Friedman was wrong about nearly everything. However, because Friedman attacked the Austrians — and Krugman hates the Austrians and especially their views on business cycles — then it is OK to use Friedman against them.

Krugman's tactics are low-level, academically speaking. Perhaps I am extrapolating to the extreme here, but if one of the world's most respected Nobel Prize-winning economists engages regularly in the employment of cheap logical fallacies and is not called to task by his mainstream colleagues for doing so, then the state of mainstream academic economics is not good.

Given that Krugman, who has claimed the ABCT is intellectually fraudulent, cites Friedman as "proof" that the theory really is a fraud, perhaps we need to look carefully at Friedman's statement to see if it is accurate. Now, most of the statement is opinion, but there is one line that can be examined fairly objectively: "You have Rothbard saying it was a great mistake not to let the whole banking system collapse." Did Rothbard really say that?

While Friedman does not give the source for Rothbard's alleged position, we do know that he did make some strong comments throughout his career about fractional reserve banking and he also gave his own policy prescriptions regarding what he believed *should* have been done regarding banking during the early years of the Great Depression.

If one can match a Rothbard quote to Friedman's allegation, it most likely would have been the following from Rothbard's book, *America's Great Depression*:

> The laissez-faire method would have permitted the banks of the nation to close — as they probably would have done without governmental intervention. The bankrupt banks could then have been transferred to the ownership of their depositors, who would have taken charge of the invested, frozen assets of the banks. There would have been a vast, but rapid, deflation, with the money supply falling to virtually 100 percent of the nation's gold stock. The depositors would have been "forced savers" in the existing bank assets (loans and investments). This cleansing surgical operation would have ended, once and for all, the inherently bankrupt fractional-reserve system, would have

henceforth grounded loans and investments on people's voluntary savings rather than artificially-extended credit, and would have brought the country to a truly sound and hard monetary base. The threat of inflation and depression would have been permanently ended, and the stage fully set for recovery from the existing crisis.

While the above quotation would seem radical to someone like Friedman who really was an advocate of paper money (as is Krugman), one has to understand Rothbard's larger points and not just his own ideological views regarding free markets. First, and most important, Rothbard believed that fractional reserve banking was inherently fraudulent and, just as important, its quicksand-like base set up the economy for financial crises.

In other words, Rothbard was declaring that the very kind of banking and financial system that Friedman championed is the *very system* that was at the heart of the crisis that was the Great Depression. Thus, Rothbard simply was saying that such a system should be eliminated because it was inherently destructive.

To take this further, Rothbard was not *advocating* the destruction of the "whole banking system," but rather was pointing out what was obvious: the system had destroyed itself and had taken the economy down with it. This was not Rothbard wanting to kill something that was healthy, but rather wanting to admit that the already-deceased system really was dead.

Moreover, Rothbard believed that if the fractional-reserve system were permitted to pass away, a new, more stable system of banking with 100-percent reserves would have taken its place, and that financial system would have worked better than the old one. Such a state of affairs would be anathema to people like Friedman and Krugman who hold that an economy needs a "flexible" currency that can be manipulated by government authorities — always to the "public good," of course.

Now, it is true that Rothbard's policy prescription is short of details, such as the method depositors would have used to gain back their share of the remaining assets of the banking system. What is important, however, is the larger policy idea in which Rothbard was not so much advocating "destruction" of one system, but rather was saying that the U.S. should replace a failed system that was wracked with political interference with one that would operate apart from government authorities, would be self-regulating, and would not be subject to disastrous bank runs.

Friedman (and Krugman) would have none of this, of course. Krugman, who recently admitted that the real goal of Keynesian "economics" was state control of the economy, and that he was fine with that situation, opposes any economic sector being free of political influence. And while it is true Friedman made many good points regarding free markets, he was willing to put the most important aspect of a modern, money-based economy — money, itself — in the hands of the very entity — government — that Friedman declared was the source of most of our economic ills.

So, in recapping this whole sorry scenario, an economist employing logical fallacies who believes state control of the economy is a good thing quotes an economist who misstates the Austrian position of banking and finance, and out of this, the Austrians are seen to be in the wrong. If nothing else, this scenario speaks volumes about the sorry state of modern mainstream academic economics.

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*Comment by R. Nelson Nash -- The most amazing thing to me is that Paul Krugman gets paid for what he is saying!!!!!*

*Number Forty-Two 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.*

**Content: Page 75-81,** PART V, Lesson 42: A Different Look at the Monetary Value of a College Degree - *Becoming Your Own Banker: The Infinite Banking Concept®* Fifth Edition, Sixth Printing

When I began my career in life insurance sales in 1964 we were taught to show our clients and prospects how much more their child would earn if he had a college degree than his twin brother who did not graduate from college. In those days it cost $2,000 per year to go to the University of Alabama or Auburn University and $2,500 per year to go to Samford University or Birmingham Southern University (private schools) in Alabama.

The average college graduate was projected to earn $80,000 more during his working career than one who did not get a degree from college. Hence, $8,000 invested in sending the child to University of Alabama would yield $80,000 more in living benefits. "You just can't get a better return on an investment than that," they said. The emphasis here was all on the monetary value of a degree.

I have been around the academic community for many years now and would like to shed a little more light on the foregoing assumption. Among other things, there are a number of sources today that will tell you the average BA Degree from a college is now the equivalent of a high school diploma in 1947. (I graduated from high school in 1948).

The cost of a degree has gone "out of sight" and the quality has "fallen off a cliff!" I have the distinct feeling that the college degree is the most over-rated item in America.

Please note that, up to this point, I have not used the word "education."

Education should be an on-going thing – we should be continuing to learn and study throughout life. My mentor, Leonard E. Read, was the most educated person I have ever met, but he had no degrees from anywhere. Neither did his associate, Henry Hazlitt. And up until recently, neither did Bill Gates.

Professor Herbert Rotfeld at Auburn University says, "Most of the students today are not in college for an education – they are there for credentials! If they could go to a machine, put in money, and get a diploma, they would do it in a heartbeat." Rotfeld quotes IBM chief executive officer Louis V. Gerstner, Jr. at a two-day national education summit in Palisades, NY"…. Business leaders do not (and should not) want business education to be vocationally oriented. It is not in the interest of business leaders to turn public schools into vocational schools. We can teach them how to read balance sheets. What is killing us is having to teach them to read and compute and communicate and to think."

What's more absurd is the subjects that are taught in so many of the colleges today. For some deep insight into this I recommend that you read *The Fall of the Ivory Tower* by George Roche. One of these days the consumers are going to wise up to the fact that they have been "conned" and the house of cards is going to come crashing down. When the perceived value of anything has no real basis, a return to reality is inevitable.

Just where did the idea of "everyone needs a college degree" come from? I think it has its roots in the period just after WW II with the advent of the GI Bill. When the war was over the Socialist thinking "economists" of that period promoted the idea of "All of these GIs coming home from the war will wreck our economy because there are no jobs for them. Let's send them to college." And so, the colleges became "diploma mills." I was in college from 1948 through 1952 and was able to observe the brunt of that effort. The GIs had the very best of books and equipment, they drove cars, and they had a stipend on which to live. Others, like me, had to buy used books and equipment, we walked to classes, and we had part-time jobs to make ends meet.

Since that time, *Parkinson's Law* has taken effect – a luxury, once enjoyed, becomes a necessity. And now the cry is that, "Everyone deserves a college degree." Notice that the cost of doing so has risen much faster than inflation in the rest of the economy. This is always the pattern when government gets involved in anything. Contrast this with things left to the market, such as the personal computer. Quality and performance have increased so rapidly that whatever you have now is obsolete within a year or two and prices have gone down dramatically.

So much for the major reason for looking askance at the value of a college degree. In the next lesson we will look at its monetary value as compared with an alternative – teaching the child the value of banking through the use of dividend-paying whole life insurance.

To compare the results of putting money into a college degree with teaching the student the value of "banking" through the use of dividend-paying whole life insurance, there are two examples in the book. Since the one involving medical school is the ultimate one, I'm going to go directly to it. Please study the other on your own.

I'm not going to put a monetary value on the degree as was done in our presentations some 30 plus years ago. I am going to let you decide for yourself what a reasonable figure might be.

To set the stage, there are twin young ladies: One is going to a major, big-named university in the Southern United States where I know it costs $35,000 per year to do so. And then, she is going to medical school at the same institution at the same cost per year. We will assume that the cost is borne by her parents and grand-parents.

Her twin, Susie, is not going to college or to medical school. Her parents and grand-parents put the same money into "high premium whole life insurance" with a major mutual life insurance company -- and got her a job as receptionist at the same medical school. Additionally, they made sure that she attended the *Infinite Banking Concept* seminar every six months for eight years so that she fully understood the process.

On page 81 you will see the design of the policy -- $11,375.00 is the premium on a Life Paid-Up at 65 and $23,625.00 is the premium for a Paid-Up Additions Rider, the total of which is $35,000.00 – the same as the cost of the undergraduate and medical degree for her sister. Refresh your memory of where this policy design fits on the scale on page 38 of my book.

After eight years you note that the cash value is $339,713. On the first day of the next year Susie withdraws dividend credits in the amount of $37,500 and finances a luxury car for someone (it could even be her own). The typical monthly payment on such a car is $11,375.00 per year so she pays this in lieu of car payments to a finance company. This shows up in the Net Premium column, line 9, as (-$26,125). We covered this procedure in the *Equipment Financing* sessions in Part 4 of this course so it should not be hard to follow. There are no policy loans in this example – the purchases are made with dividend withdrawals.

She repeats the process every four years and, going to line 45, you will note that she cannot pay but 3 years on this car – the policy won't hold it – it is paid-up at age 65. Also, notice that the next car (line 49) is "free" for the same reason. At age 70 she has, $10,282,267 in cash value and she can begin "passive income" at that point of $550,000 per year for the rest of her life from dividends, alone. On page 81 let's assume death at age 85. She has recovered all the money that was paid into the policy plus $8,488,875 in income – and she still delivered $18,168,676 in death benefit to the next generation. I know a lot of doctors and not a single one that has even come close to this result, financially.

At the end of the first eight years, her sister has to go through Internship and Residency for another four years and has not earned much during this time. Then she begins her practice of medicine and has to buy malpractice insurance immediately. The costs can range from $25,000 per year to as much as $200,000, depending on her specialty. The doctor must begin a retirement plan of some kind, too.

Susie doesn't have to concern herself with any of these things. What's more, if Susie really wants to make

some money, she can go to the insurance company at the end of the first eight years and say to them, "Lend me enough money out of my policy to buy eight of those luxury cars. I'm going to take them down to that medical school and lease them to some of those doctors that I have met there. Most all of them drive cars in that price range and I have found out that most of them are leased. I'm going to give them a little better deal than they can get elsewhere." Out of the income from those lease payments Susie can add a ninth car to her fleet in about a year. Eleven months later she can add a tenth car -- ten months later she can add an eleventh car, etc.

Hopefully, you get the picture. After about three years of building her fleet of cars, she can quit her job as receptionist at the medical school and just lease cars to doctors that work within a half-mile radius of the school. She can make a handsome living out of this business -- in addition to the figures you see in the illustration!

In summary, I don't think that the monetary value of a college degree is quite the advantage that we were taught some 38 years ago. Yes, society does need doctors – but one shouldn't get into the profession for monetary reasons.

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

*The Terrible 10: A Century of Economic Folly* by Burton A. Abrams

*Dr. Feelgood: The Shocking Story of the Doctor Who May Have Changed History by Treating and Drugging JFK, Marilyn, Elvis, and Other Prominent Figures* by Richard A. Lertzman & William J. Birnes

## 2014 Infinite Banking Concept Think Tank Symposium

Because of the exploding public demand for "Infinite Banking" policies, and the corresponding proliferation of IBC "experts," we made the decision to create the *Infinite Banking Institute* which administers the *IBC Practitioner's Program* (Agent Training).

We want to make a clear distinction to the public as to those financial services professionals that have been through our baseline course of study and are authorized to advertise themselves as IBC agents.

With the advent of our IBC Practitioner's Program we redesigned the annual *Infinite Banking Concept Think Tank Symposium* to reflect the purpose and scope of the practitioner's program; and renamed the symposium the ***IBC Practitioner's Think Tank***.

This very popular annual event is scheduled for 6-7 February, 2014. The event will take place in Birmingham, Alabama.

***We rolled out the IBC Practitioner's Program at last year's think tank, and announced that only those in the program or having completed the program would be invited to future think tanks.***

- This reflects one of the many benefits of IBC Practitioner Program membership.
- The aim of the IBC Practitioner's Think Tank is to share advanced-level information that can help all to become better practitioners. It is only fair that only those in the program benefit from this sharing.
- The think tank will provide additional content, including presentations from veteran IBC practitioners, that go beyond the general themes laid out in the IBC Practitioner's program course material.
- We have no intention to restrict advanced-level IBC-related education - on the contrary, we want both the seasoned veteran and the new agent to be exposed to this wonderful concept and all the

excitement that goes with it. *But*, at past think tanks, we repeatedly saw a large IBC-experience level disparity among attendees. By restricting entry to only those producers enrolled in the program, we hope to ensure a basic starting level for all participants, upon which the experts can offer their own perspectives so that we can all learn from each other.

- Our intent is to make the think tank the "part 2" of the IBC Practitioner's program, and as such, the emphasis will be on IBC case-studies, and sales and marketing techniques. Attendees will get advanced-level information, not covered in the course.
- To maximize the learning environment, we have downsized the venue to provide a seminar-like environment that promotes teaching and two-way exchange between the audience and the seminar leaders.

Furthermore, we are committed to grow our valuable relationship with insurance company home office staff members and regional sales executives.
We want to ensure that their personnel have the opportunity to attend our event to be updated on the latest and to help foster their relationships with our IBC practitioners; which ultimately means that the industry will participate in the future of IBC.

***Because the think tank is only open to those IBC Practitioner's Program students, and graduates, there will be no open invitations, only the target audience will receive information on the event!***

If you are interested in attending the think tank, please consider enrolling in the *IBC Practitioner's Program* course of instruction; both those newly enrolled, and long-time members alike will receive invitations to this year's think tank.

If you have additional questions please check out the program on our site or call, or email me.

- David Stearns

## Welcome to the newest IBC Practitioners https://www.infinitebanking.org/finder/

The following producers completed our ***Infinite Banking Concepts Practitioners Program*** course of study during the past month, and joined our IBC Practitioner Team:

- *John Robinson,* Fairfield, California
- *Kyle Davis,* Orlando, Florida
- *Shirley Bertholf,* Sedro-Woolley, Washington
- *Olivia Pham Dabbous,* Blue Bell, Pennsylvania
- *Charlie Jackson,* Hillsboro, Texas
- *Miguel Chinea,* Bayamon, Puerto Rico

*You can view the entire practitioner listing on our website using the Practitioner Finder.*

IBC Practitioner's have completed the IBC Practitioner's Program and have passed the program exam to ensure that they possess a solid foundation in the theory and implementation of IBC, as well as an understanding of Austrian economics and its unique insights into our monetary and banking institutions. The IBC Practitioner has a broad base of knowledge to ensure a minimal level of competency in all of the areas a financial professional needs, in order to adequately discuss IBC with his or her clients.

The IBC Practitioner has signed the *IBC Practitioner's Agreement* with the IBI that specifies that he or she is a financial professional who wishes to advertise his status as an IBC Practitioner, and acknowledges possession of the proper licensing and other legal requirements to practice in his industry. The IBC Practitioner agrees for those clients who want an IBC policy, he will design it according to certain characteristics to ensure that these specific clients are getting a *"Nelson Nash" policy*, as described in his books and seminars. If an IBC Practitioner is dealing with a client who asks for an "*IBC," "Nelson Nash," "privatized banking," or "banking" policy*, or if the Practitioner recommends such a policy to the client, and/or if the client has come to the Practitioner by referral from his listing at the IBI website, then and only then the Practitioner must be sure to set this particular client up with a *dividend-paying, whole life policy.*