

BANKNOTES

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IBC Doesn't Require Frequent Borrowing

Robert P. Murphy

One of the virtues of a dividend-paying whole life policy is the control the owner has over his money. In particular, policy loans are a very convenient way to access wealth stored in this fashion. Nelson Nash's Infinite Banking Concept (IBC) uses policy loans as a way to "become your own banker." Rather than relying on outside financiers and the associated interest payments, Nash encourages individuals to build up a warehouse of wealth inside one or more (appropriately designed) life insurance policies, so that major purchases can be financed through policy loans and paid back on the owner's own terms.

Some fans of IBC have focused on particular passages in *Becoming Your Own Banker (BYOB)* and concluded that if a *little* borrowing (and repayment) is a good thing, then a *lot* of borrowing and repayment must be great. In fact, some IBC enthusiasts believe that the ideal arrangement would treat a life insurance policy as a checking account. Unfortunately, this is not a correct interpretation of Nash's message. I have verified this with Nelson himself, but in the present article I'll walk through some other statements from *BYOB* to unpack the confusion.

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The Passages Causing Confusion

To be fair, there are (at least) two places in *BYOB* that might lead the reader to believe that frequent borrowing is essential for the proper or "true" implementation of IBC. First, the discussion of equipment financing has the hypothetical owner discovering (p. 53 of the 5th edition) that if he gets richer by using policy loans on one of his logging trucks, then he does even better by using the practice with his second and third trucks.

Earlier in the book, Nash has an entire section titled, "Expanding the System to Accommodate All Income" (p. 48). He explains that "premiums and income should match," because your income must flow through somebody's bank—why not your own?

In light of these points, it is understandable that a reader of *BYOB* could conclude that IBC taken to its logical limit would involve frequent loans and repayments. "After all," such a reader might think, "what distinguishes IBC from a simple investment in a whole life policy, is the loan activity. And if I'm going to take out enough life insurance so that my paycheck just covers the premiums, then surely I have to borrow that money right back out, so I can pay my bills."

Understandable though the above attitude may be, it is an incorrect interpretation of *BYOB*'s message. In the next section I'll bring up some counterpoints to show what I mean.

Passages Suggesting Nash Is Not Recommending Frequent Borrowing

First, Nash stresses that the IBC policyholder must not be afraid to capitalize. In the various examples from *BYOB*, the people (such as the logger or Susie Q. Student) make premium payments into their policies for several years, before taking out a single loan. IBC only "works" if one has built up a sufficient cash value to get started. That's why IBC requires not just insight, but discipline.

Now it's true, many real-world users of IBC transfer in large amounts of wealth from other sources, and

begin borrowing immediately. Especially if such a person has high-interest-rate debt (like credit card debt) that he pays down with the policy loan, this can be a sensible strategy. But my point is, the standard examples in *BYOB* don't have people acting in this way; instead they spend years building up a policy before taking out a single loan.

It's also important to dwell on the phrase "warehouse of wealth" (the title of Nash's subsequent book). What distinguishes the warehouse from, say, the shelf in the grocery store? The shelf is constantly drawn down and replenished with items (such as cans of peas) from the backroom. Yet the *warehouse* is not as frequently altered. It is occasionally replenished by shipments from the suppliers, and the grocery store (or other business) occasionally replenishes its own, smaller stockpiles by drawing down the stocks at the warehouse. Relative to the day-to-day (or hour-to-hour) activity in the store, the warehouse turnover is a much more lethargic affair. Consequently, we should expect our warehouse of wealth to act as a buffer, and have less frequent financial activity than our day-to-day lifestyle requires.

Finally, there's the fact that Nash refers to having a regular checking account "for convenience." This proves that he doesn't actually think someone should use a life insurance policy as a checking account.

Knowing the Why

All of the above passages and themes are consistent with each other; they only appear to be contradictory. Let me try to reconcile them in the remainder of this article.

First, we need to understand why the logger in the equipment financing example does progressively better, when he expands the operation. It's not because of borrowing and repaying per se. Rather, it's that he's *redirecting cash flows as Paid Up Additions into his policy, that otherwise would have gone to outsiders in the form of interest payments*. As Nash himself says in footnote 1 on page 58:

Actually, this "interest" [paid to one's insurance policy] is not really interest—it is additional

premium (capital) that has been paid into the policy that equals the interest that was being paid to the finance company. That is the reason that it is adding to the cost basis of the policy.

This is a crucial point so let me spell it out with a simple numerical example. Suppose someone is planning on taking out a loan of \$1,000 from a commercial lender, to be repaid in one year at 10% interest. But instead, the person borrows the \$1,000 from the insurance company at 5% interest. In order to clear the loan, he could simply pay back \$1,050 in one year. But instead he follows Nash's advice and plays "honest banker" with himself, and pays the full \$1,100 into the policy. What actually happens under the hood is that the insurance company uses \$1,050 to extinguish the loan, and the remaining \$50 to buy additional life insurance. Thus, with the same outflow of cash—\$1,100 due in a year—the man ends up with an extra \$50 worth of Paid Up Additions in life insurance. That contribution will boost his death benefit and cash value in the policy.

In my simple example, it was not the borrowing and repayment per se that made the man wealthier. Rather, it was the fact that he directed the same cash flow toward a loan that he obtained at a lower interest rate, so that the difference could be used to buy additional life insurance.

What does all this mean? Yes, you should expand your IBC loan process *so long as you continue to use outside financiers*. But once you reach the point where you are no longer borrowing money from outside entities, you don't need to engage in further policy loans in order to "do IBC." If you have extra cash that you can divert into the policy, you are allowed to make more PUA purchases with it; you don't have to go through the motions of borrowing money in order to pay yourself back at a high interest rate.

Premiums Can Equal Income, Without Frequent Borrowing

Finally, let me show how a standard checking account can interact with a large whole life policy with premiums equal to annual income. My point in this demonstration is simply to show that even at the

theoretical limit, where a person has to devote every penny of income to keeping his policy in force, it does not follow that the person must make monthly policy loans in order to pay his living expenses.

To keep things simple, suppose our hypothetical person has a monthly salary of \$10,000, a monthly whole life premium of \$10,000, and living expenses of \$9,000 per month. One might at first think that this person needs to take out monthly policy loans, but this isn't true. So long as the \$54,000 person has a well-capitalized checking account to act as a buffer, he only needs to occasionally borrow money from the insurance company.

For example, if the person starts out with a checking account balance of \$108,000, he only needs to take a policy loan once per year:

Month	Checking Account Balance Before Monthly Living Expenses of \$9k (ignoring interest)	Policy Loan Balance (ignoring interest)
January	\$108,000	\$0
February	\$99,000	\$0
March	\$90,000	\$0
April	\$81,000	\$0
May	\$72,000	\$0
June	\$63,000	\$0
July	\$54,000	\$0
August	\$45,000	\$0
September	\$36,000	\$0
October	\$27,000	\$0
November	\$18,000	\$0
December	\$9,000	\$0
January	\$108,000	\$108,000

Admittedly, some might balk at keeping an entire year's salary in the checking account. The necessary amount can be cut in half, if the person wants to make two policy loans per year:

Month	Checking Account Balance Before Monthly Living Expenses of \$9k (ignoring interest)	Policy Loan Balance (ignoring interest)
January	\$54,000	\$0
February	\$45,000	\$0
March	\$36,000	\$0
April	\$27,000	\$0
May	\$18,000	\$0
June	\$9,000	\$0
July	\$54,000	\$54,000
August	\$45,000	\$54,000
September	\$36,000	\$54,000
October	\$27,000	\$54,000
November	\$18,000	\$54,000
December	\$9,000	\$54,000
January	\$54,000	\$108,000

And just to make sure the pattern is clear, a person could devote his entire salary to policy premiums, and yet still only take out three policy loans per year, if he had four months' worth of living expenses initially saved in his checking account:

Month	Checking Account Balance Before Monthly Living Expenses of \$9K (ignoring interest)	Policy Loan Balance (ignoring interest)
January	\$36,000	\$0
February	\$27,000	\$0
March	\$18,000	\$0
April	\$9,000	\$0
May	\$36,000	\$36,000
June	\$27,000	\$36,000
July	\$18,000	\$36,000
August	\$9,000	\$36,000
September	\$36,000	\$72,000
October	\$27,000	\$72,000
November	\$18,000	\$72,000
December	\$9,000	\$72,000
January	\$36,000	\$108,000

In all three of the above scenarios, the person starts the next year with a \$108,000 policy loan balance, because that is the sum of his annual living expenses and (remember) his entire paycheck was absorbed by life insurance premiums.

I should be clear that I am *not* recommending that a person operate in this fashion. Beyond the hurdle of underwriting—in other words, convincing the insurance company to grant enough coverage so that one's entire income equaled premium payments—there are numerous other practical issues we would need to consider, before pushing someone to this extreme. As Nash himself says, having premiums equal income is the upper theoretical limit of IBC.

The point of my demonstrations above was simply to show that *even if* someone devoted his entire paycheck into life insurance premiums, it wouldn't follow that this person had to engage in frequent policy loans just to eat. Rather, the person could have first built up a sizable checking account balance. Then, the frequency of policy loans would be related to the number of months' worth of expenses in the checking account.

Conclusion

Certain passages in *Becoming Your Own Banker* might lead the reader to conclude that IBC requires frequent loan activity in order to “work.” Yet this is a misinterpretation of Nash's message—as he himself has confirmed to me in private communication. It makes perfect sense to use a policy loan to *replace* outside financing, but the loan per se isn't necessary to make the additional PUA contributions, which are the real source of growth in the *BYOB* examples. Even if someone were to live up to Nash's theoretical ideal of devoting all income into premium payments, it still would not require frequent policy loans, because a large checking account could act as a buffer.

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

How the State Destroys Social Cooperation

by Gary Galles

Many of our present economic difficulties, while blamed by politicians on freedom and markets, are in fact the long-run effects of government policies emphasizing short-run, visible benefits that mask hidden or delayed costs. In particular, our economic woes reflect government's reliance on coercion, whose harmful effects expand over time, in contrast to voluntary cooperation, whose beneficial effects expand over time.

Voluntary market cooperation expands because the more time sellers have to respond to increases in demand, the more their incentives lead to better ways of accommodating buyers with improved output. Similarly, the more time buyers have to respond to increases in supply, the more profitable uses are discovered. That is, when you give individuals better incentives to voluntarily cooperate in the marketplace, over time, they discover and implement more effective ways to do so, expanding cooperation and the mutual benefits that result.

We see this everywhere in personal computing and technology in which convenience, computing power, and portability of devices increase constantly, at rates much faster than most ever anticipated in earlier times. In contrast, when the state employs coercion, it encourages buyers and sellers to act against what would be in their self interest in a free economy. Over time, those who would otherwise spend time thinking about their trading partners, instead respond to coercive measures by expanding the ways they can evade the burdens imposed. In such a situation, social cooperation contracts.

Taxes (including deficits, which are delayed taxes), subsidies, and mandates all illustrate coercion's progressive undermining of social cooperation. For example, when government raises taxes on income earned by benefiting trading partners, those who provide the benefits earn less over time. In response, those burdened with the new taxes have incentive to

do less to benefit others while substituting more effort to avoid taxation.

Moreover, when government mandates employer-provided "free" benefits, employers then reduce other parts of compensation that many workers may actually value more than the mandated benefits, to "pay" for them. Or employers may simply hire fewer workers. We see this already in Obamacare's mandated increases to employers' labor costs. Employers have cut jobs and hours (the mandates don't apply to under-30-hour-per-week workers), or employers squeeze other parts of employee compensation, including on-the-job training, which is a crucial mechanism through which workers learn their way to success.

Price ceilings such as rent control, and price floors such as the minimum wage, also illustrate coercion's increasing erosion of social cooperation. In response to such mandates, people increasingly find ways to do less of what violates their self-interest, which entails cooperating less well with others. As Friedrich Hayek noted, "Any attempt to control prices or quantities of particular commodities deprives competition of its power of bringing about effective coordination of individual efforts."

When government holds apartment rents artificially low, they reduce landlords' incentives to continue supplying dwellings. Over time, fewer units are constructed (seen under every rent control regime) and owners find other ways to leave the rental housing market. This takes place through a variety of mechanisms, including condo conversions, which removes units from the available rental stock in order to evade restrictions imposed on rent, but not on mortgage payments. Owners might also respond by reducing maintenance and upkeep of units which rent controls make unprofitable. The end result is less social cooperation and long-term deterioration of the existing housing stock.

When government holds the price of low-skill workers artificially high, as with the minimum wage, government reduces employers' incentives to use low-skill workers in production. Over time, employers find more ways to conserve on that artificially scarce

input, reducing employment via changing production processes and products, substituting capital for labor, reducing output, moving jobs elsewhere, and to generally cooperate less with low-skill workers. For instance, restaurant industry responses to minimum wage hikes have included moving to buffets, which require fewer workers, expanding slow-cooked menu choices (essentially substituting crock pots for workers), and self-serve soda dispensing. Similarly, the higher the price of a worker relative to a computer, the more employers will substitute computers for labor.

Furthermore, the constant prospect of endless and arbitrary changes in taxes and regulations and other forms of coercion increases the risks involved in trying new and innovative ways of cooperating with others in search of profits. And because coercion expands evasion efforts over time, more and more resources go to enforcement, taking resources away from productive uses and violating principles of equity (since enforcement is inherently selective and unequal) that can be upheld only when arrangements are voluntary.

Since there are very few areas where coercion is necessary to achieve social cooperation, there are very few areas where government advances it. Instead, the massive expansion of government beyond such bounds has undermined cooperation and violated justice. Yet still more intrusion is constantly offered as a solution. That is why Ludwig von Mises's recognition that "Those who ask for more and more government interference are asking ultimately for more compulsion and less freedom" is important and ominous today. Each expansion of government's reach shrinks freedom and restricts otherwise expanding social cooperation, with effects that worsen progressively over time.

Gary M. Galles is a professor of economics at Pepperdine University. He is the author of *The Apostle of Peace: The Radical Mind of Leonard Read*.

Comment by R. Nelson Nash.

Life Insurance is social cooperation. Contrast that

with the definition of mercantilism:

An economic system developing during the decay of feudalism to unify and increase the power and especially the monetary wealth of a nation by a strict governmental regulation of the entire national economy usually through policies designed to secure an accumulation of bullion, a favorable balance of trade, the development of agriculture and manufactures, and the establishment of foreign trading monopolies. – Merriam Webster Online.

Just another example of Central Planning – a concept that has never worked!

Nelson's Newly Added Book Recommendations

<https://infinitebanking.org/reading-list/>

Wheat Belly: Lose the Wheat, Lose the Weight, and Find Your Path Back to Health by William Davis, MD a preventive Cardiologist

The Battle for Butte: Mining and Politics on the Northern Frontier, 1864-1906 by Michael P. Malone

Science is More than Mathematics

by Christopher Westley

Earlier this year, the distinguished Harvard biologist, E.O. Wilson wrote of the limitations of mathematics in the sciences in the *Wall Street Journal*. This native son of Mobile, Alabama — better known elsewhere as the Father of Sociobiology — argued that the ability to formulate conceptual contributions to science does not stipulate mathematical expertise or even a mathematical component. Wilson concluded, “[f]ortunately, exceptional mathematical fluency is required in only a few disciplines, such as particle physics, astrophysics and information theory. Far more important throughout the rest of science is the ability to form concepts, during which the researcher conjures images and processes by intuition.” Wilson himself noted that he never learned calculus until his early 30s — *after* achieving tenure at Harvard — and he bemoans the loss in scientific knowledge that

results when its would-be contributors choose other careers due to deficient mathematical training.

While this is not an issue for Austrian economists using a priori and deductive logic in the development of economic theory and concepts, mainstream economics remains wedded to the idea of using data as an end in itself, such that the availability of data alone often determines the extent of economic inquiry. As a result, concepts such as capital that do not lend themselves to mathematical analysis are often ignored by the mainstream or assumed to be constant (so as to simplify their use in modeling techniques). This shortcoming is one of the explanations for the mainstream's infamous misdiagnosis of the housing bubble from a decade ago and is one of the primary reasons for the mainstream's ignorance of malinvestments resulting from state money creation in general.

Wilson's comments are interesting to the extent that emphasis on statistical modeling in mainstream economics and other social sciences are based on the desire to achieve the same scientific rigor of the hard sciences. This desire is a holdover from the Progressive Era, perhaps epitomized by Irving Fisher's 1919 Presidential Address to the American Economic Association. Fisher wrote:

[t]here should be created an endowment for economic research, in the management of which labor, capital, and economists would, all three, share and which would be a sort of laboratory for the study of the great economic problems before us. Today the physical sciences have their great laboratories, as a matter of course. But the economist is expected to secure his own facts and statistics and make his own calculations at his own expense. Expensive research, far beyond the reach of the professor's purse, is necessary if the economist is to be of any important public service in studying wealth distribution, the profit system, the problem of labor unrest, and the other many pressing practical problems.

A half a century later, Milton Friedman saw Fisher's argument and raised it in his famous essay, “The Methodology of Positive Economics” by emphasizing

the role of mathematics and statistics in economics to extol predictive accuracy over everything — even correct theory. Data drive what gets tested empirically, and if the results correctly explain the world they must be theoretically accurate. To Friedman, economic methodologies are “to be judged by the precision, scope, and conformity with experience of the predictions [they] yield. In short, positive economics is, or can be, an ‘objective’ science, in precisely the same sense as any of the physical sciences.”

Austrians have seen all of this before, first in their responses to German historicism and their identification of the historicists’ lack of a theoretical basis for economics as a science. In the 1950s, F.A. Hayek, in his masterful *Counter-Revolution of Science*, noted that by adopting the mathematical models of the hard sciences, economists can easily treat the object of their study — the human person — in the same way that physical scientists examine particles of matter. Instead of living, choosing beings, the human person is easily reduced to elements that can be investigated and manipulated to achieve a preferred social end of the state. One can easily see why an arch-progressive like Fisher would extol this approach. It is extremely ironic that someone with the libertarian bona fides of Friedman would extend it.

While mathematics is an important tool in the social sciences, the way it has come to be used among social scientists narrows the scope of inquiry and has not added much to our theoretical knowledge. Nonetheless, as Rothbard pointed out, its emphasis can justify state expansion by providing scientific precision to government policies.[1] The result today is a sort of intellectual-industrial complex in which governments extract funds by force from the masses and direct them to research institutions where individuals formulate models that provide scientific justifications for policies that require — surprise, surprise — that governments extract more funds by force from the masses. Unfortunately, it’s a complex that feeds much of the research activity that today defines Fisher’s Yale, Friedman’s University of Chicago, and the bulk of higher education that aspires to be like them.

E.O. Wilson reminds us that not only do the hard sciences overemphasize math at their own peril, they probably never emphasized it to the extent that Progressive Era social scientists like Irving Fisher envisioned. Meanwhile, today, scientists unhinged to government and less beholden to the state-funded grant process for both their status and lifestyles are more modest in their approach and appreciative of the natural laws to which it is their vocation to study and understand.

Such individuals are also more likely to understand that the stakes for directing science for the normative ends of powerful individuals are huge. As global economies reverberate in response to science-based interventions in market forces, mainstream economics needs humility and an appreciation for the limitations of mathematical approaches. Its practitioners should start by learning from the heterodox schools such as the Austrians that avoided them.

Christopher Westley is an associated scholar at the Mises Institute. He teaches in the College of Commerce and Business Administration at Jacksonville State University.

Comment by R. Nelson Nash --

Life Insurance agents who rely on, or who emphasize illustrations of a life insurance policy to present their case and recommendation for a course for action to solve individual financial problems are guilty of the same error of the economist who are fixated on mathematical explanations in the economic world. The Infinite Banking Concept is founded on a priori and deductive logic. I encourage all agents to adopt this core belief and practice.

The concept is not about “rates of return” – it is all about “Who is the banker in your life.”

Nelson’s Favorite Quotes

“Anyone who lives within their means suffers from a lack of imagination.” - *Oscar Wilde*

“Whenever you find yourself on the side of the majority, it is time to pause and reflect.” – *Mark Twain*

All Government Policies Succeed in the Long Run

By Robert Higgs

A crazy claim you are probably thinking after reading my title. After all, “failed policies” are a staple of discussions and debates about government actions in the United States. Everybody, regardless of political preferences, has a list of what he regards as the most glaringly failed policies. This way of looking at the matter, however, is all wrong.

People label a policy as a failure because it does not bring about its declared objective. For example, drug policies do not reduce drug use; educational policies do not educate children better; national-security policies do not make Americans more secure; and so forth. The mistake is to take seriously the announced policy objectives, to forget that virtually everything the government does is a fraud. The best way to document the government's nearly unblemished record of policy success is to follow the money. With very little trouble, you will be able to follow the trail to the individuals and groups who benefit from the policy. Occasionally the true beneficiaries do not benefit in the form of augmented income or wealth, but in other forms of reward, yet the principle remains the same.

When I first studied economics and began to practice as an economist, back in the sixties and seventies, I learned how markets and the market system as a whole operate. With this understanding in mind, I was able to identify a number of reasons why a particular policy might fail: it might be based on insufficient or incorrect information; it might give rise to unintended consequences; it might receive inadequate funding for its implementation; it might be based on unsound theory or mistaken interpretation of historical experience; and so forth.

Analysts who approach the question of failed policies along these avenues can rest assured that they will never lack for new studies to perform and new measures to propose to legislators, regulators,

administrators, and judges. For example, if government fiscal or monetary policy fails to stabilize the economy's growth because it derives from unsound macroeconomic theory, then the analyst attempts to identify the ways in which the received theory is unsound and to formulate a sounder theory, on the basis of which a more successful policy may be carried out. This sort of back and forth between theoretical tinkering and policy appraisal fills many pages in mainstream economics journals.

But it's all a waste of time insofar as the attainment of the ostensible policy objectives is concerned, because these objectives are not the policy-makers' real objectives, but only the public rationales they use to disguise their true objective, which invariably is to bring about the enrichment, aggrandizement, and other benefit of the politically potent individuals and interest groups that pack the decisive punch in the policy-making process—for example, those who can most effectively threaten legislators with affirmative punishments or the withdrawal of financial support for the legislators' reelection if the string pullers' interests are not served.

Almost twenty years ago, I wrote an article on this subject called “The Myth of ‘Failed’ Policies,” commenting briefly on how seven different areas of important, obvious policy failure illustrate my thesis. Looking back at my 1995 article, I can say now that in each case the apparent “failure” and the actual success have only grown. In each case, much more money is being poured down the rat hole of a failed policy now than was being poured down it then—which is only to say that the American political process is at least as corrupt now as it was then, and probably even more so. Despite various surface changes in policy details, none of the ostensible “failures” has been repaired in the least, even though the apparent failure has become only more blatant and undeniable.

Many people, for good reason, have concluded that the surest test of whether a politician or public official is lying is to ask, Are his lips moving? An equally simple test may be proposed to determine whether a seemingly failed policy is actually a success for the movers and shakers of the political class. This test

requires only that we ask, Does the policy remain in effect? If it does, we can be sure that it continues to serve the interests of those who are actually decisive in determining the sorts of policy the government establishes and implements. Now, as before, “failed” policies are a myth in regard to all policies that persist beyond the short run. The people who effectively run the government, whether from inside or outside the beast, do not run it for the purpose of hampering the attainment of their own interests; on the contrary. Everything else in the policy process is, as Macbeth would put it, “a tale told by an idiot [augmented by economists, lawyers, and public-relations flacks], full of sound and fury signifying nothing.”

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Comment by R. Nelson Nash.

Yes, in every government program there is the “stated reason for the activity, but there is always the hidden agenda containing the real reason.” Since Robert Higgs’ article is absolutely true, I wonder why people continue to put money into tax-qualified plans???????

You must understand “the real reason” for the government program, whatever it may be called.

Hint: It is not for your benefit!

Universities to MOOCs: We Will Assimilate You

By Peter Klein

Universities haven’t changed much since the Middle Ages. There is the campus with its lecture halls, dormitories, libraries, and laboratories surrounded by leafy quadrangles. Well, they’ve added giant sports complexes, gyms and swimming pools, and gourmet restaurants, but the basic layout is the same. And the production process hasn’t changed since around 1200. Professors give lectures, students read books and

take notes, there are examinations and grades, along with the occasional tutoring session, and a great deal of hanky panky. The professors wear tweed jackets instead of gowns, and the students wear – well, just about anything, including pajamas – but otherwise the university remains one of society’s most conservative institutions.

This has all been challenged, quite radically, in the last decade, as students, parents, taxpayers, and donors have begun to grasp the potential of the internet for revolutionizing the education industry. Distance-learning has been around for a long time (what used to be called “correspondence courses”), but the internet has made it possible for people to educate themselves, independently or in groups large and small, on an unprecedented scale. Startup companies, sometimes unaccredited, are entering the education space as never before. Alternative providers and platforms such as Khan Academy, TED, and the Mises Academy are offering modular, flexible, and specialized alternatives to the medieval model that continues to dominate the establishment universities. And everyone is talking about MOOCs, “Massively Online Open Courses,” offered by standalone firms or in partnerships with established universities.

The early — and predictable — reaction of the traditional universities was to denounce the entrants as cheap, inferior, fly-by-night operations. “They don’t offer real degrees!” “They don’t provide a high-quality education like we do!” Actually, some of the startups offer extremely high-quality products. Others don’t, but so what? Why should “higher education” correspond exactly to a four-year degree from Yale? Why can’t it be better, or worse? A Hyundai isn’t a Mercedes, but that doesn’t mean everybody has to drive a luxury car. And in many cases a shorter, more specialized – not to mention cheaper – curriculum is vastly superior to the bloated, politically correct, and increasingly irrelevant program offered by many of the prestige institutions.

Lately some traditional universities have been trying a new strategy, namely trying to incorporate the best features of the new platforms into the established models, a sort of Borg-like, assimilation strategy.

An article Slate describes this trend, focusing on a “flipped” model in which students watch lectures at home, online, and do problems and exercises in class, with the help of instructors and classmates. I personally like the flipped model a lot and often use these techniques in the classroom. Some concepts are better taught using the lecture format, but why should I perform it live, and why should the students get it from me, if there is somebody else out there on the internet who can do it better? I’d rather spend my time working with the students alone or in small groups, after they’ve mastered the fundamentals. But therein lies the rub. The expensive, cumbersome, and rigid university structure is not particularly well suited for the flipped model. Most highly paid, tenure-track faculty aren’t trained to be in-class coaches and problem solvers. They may not be good at it – after all, they were trained to give lectures. Often there is little connection between their research and this kind of classroom activity, at least for undergraduate education. The coaching sessions can themselves be organized by lower-cost entrants, like the MOOC providers or community colleges or other local groups. You don’t need a huge university campus with a library, dorms, and football stadium to organize problem-solving sessions, and you don’t need overpaid professors to do it. There are exceptions – like graduate business schools that specialize in case-based instruction from highly-qualified discussion leaders (typically “clinical” professors who are former executives) – but in general, most scholars with PhDs are superfluous in this model.

If we had a free market for education, we would probably have far fewer schools, institutes, and programs, and we’d have a lot more diversity of structure and content. Sure, there would be some elite academies filled with top scholars who do research and train the next generation of top scholars. But we wouldn’t have thousands of universities copying that same basic structure at high cost and with little benefit.

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Comment by R. Nelson Nash –

Dr. Peter Klein has isolated the heart of our fundamental problem in the USA – the way we go about education. There is no real reason that we go about it the way we do. Thank goodness there is a change coming!

It is about time!



Number Forty-One 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 71-74, PART V, Lesson 41: An Even Distribution of Age Classes. *Becoming Your Own Banker: The Infinite Banking Concept®* Fifth Edition, Sixth Printing

Back in my days as a consulting forester, I was teaching landowners who were 50 to 70 years old about planting trees. There was no way that these people could see the fruits of their labors. But, they could see clearly that they were creating a heritage for future generations and that was something very valuable to them – psychic income if nothing else. Based on this experience I developed the scenario on page 71 of the book as a model to compare a better way to create a financial heritage for future generations.

The elderly couple in this story was introduced to the idea of establishing substantial life insurance plans for their four grandchildren. Two were boys and two were girls. The boys belonged to one of their sons and the girls belonged to the other. The grandparents put \$2,000 premium per year into policies on each of the grandchildren, retaining ownership of the policies until their own death, with ownership going to their sons at that time.

Their sons are now grandparents and they have a total of eight grandchildren, collectively. They have diligently followed the example established by their parents. Whenever a grandchild is born each will start up a new policy on the newborn with a \$2,000 annual premium. Each policy is designed according to the guidelines on page 38 of *Becoming Your Own Banker*, emphasizing cash accumulation and de-emphasizing death benefit at the outset. Premiums are planned for a period of 22 years – approximately one generation – and are to be paid by the grandparents out of current resources or, maybe, a trust that they have set up for this purpose.

On page 73 of the book you will see the illustration of the last policy that was added when a grandson was born. Studying the illustration on this page you will note that, after the first 22 years, the Paid-Up Additions Rider is terminated and the premium of the base policy (\$600) is paid by dividend surrenders, resulting in no cash outlay from that point on.

With this particular company and based on the information shown, this is not a Modified Endowment Contract. If premiums were to be paid four more years, it would become one.

Note that there are no examples of using this policy for “banking” purposes illustrated here. Based on what you have already been taught in this course, suppose that the policy was used to buy a car at the beginning of the 23rd year and the repayment amount and schedule were designed to meet those same guidelines – what would happen to all the figures below that point? Answer: they would increase.

Also, suppose that the grandchild wishes to go to college. Where is the best place to get the funds to do so? What about a repayment schedule?

What should the payments be? You supply the answer.

Look at the cash value on line 40. (\$412,080). This is prime home-buying time in the typical household. Suppose that the Insured wants to buy a new home at that time – what should he pay back? Answer: the closing costs that his next door neighbor had to pay on a mortgage plus monthly payments that would

be equivalent to the current mortgage rates – or preferably, more than that. Remember, it will go to his policy and increase its cash value. This will result in increased “passive income” at retirement time.

Now, go to page 74 and look at the “passive income” beginning at his age 70 (\$225,000 per year). Let’s assume death at age 85 and you will note that he has recovered the \$22,000 that his grandparents paid into the policy, plus \$3,556,000 in income and it still delivers \$6,375,923 to the next generation.

There are other significant advantages to this idea:

- It covers multiple generations – promotes long range planning.
- Underwriting problems are minimized.
- Tax-free buildup of cash values over a long period of time.
- Outlay is very small compared with the ultimate yield.
- The generation paying the premium can most easily afford them.
- When death benefit occurs, the system becomes self-sustaining.
- Precludes any need for Social Security.
- Retirement income is assured.
- Estate planning is greatly simplified.
- Wealth “mentality” is transferred to succeeding generations over a long period of time to produce consistent understanding. They are learning a process – not buying a product.
- Promotes the understanding of what stewardship is all about.

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:

- *Joe Pantozzi*, Las Vegas, Nevada
- *Robert Zuniga*, Cornelius, North Carolina
- *Greg Simpson*, St Albert, Alberta, Canada
- *Sonda Frattini*, Charlotte, North Carolina
- *Richard Canfield*, Edmonton, Alberta, Canada
- *Thomas Laune*, Franklin, Tennessee
- *Bruce Wehner*, St Louis, Missouri
- *John Stewart*, Salt Lake City, Utah
- *John Montoya*, Dublin, California
- *Pete Wright*, Birmingham, Alabama
- *Will Moran*, Edmonton, Alberta, Canada
- *Manal Ivie*, Little Rock, Arkansas

You can research 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*.

Nelson's Live Seminars & Events
for October 2013
<https://infinitebanking.org/seminars/>

Nelson Live in Gulfport, MS, 3-4 October
Contact Barry Page
228-875-5545
barry@legacyinsuranceagency.com

Nelson Live in Birmingham, AL, 11 October
Contact Stacy Brasher
205-440-4101
stacybrasher@nowlinandassociates.com

Nelson Live in Boerne, TX, 17-18 October
Contact Financial Process Group
830-331-9805
janet_sims@glic.com

Nelson Live in Ft Worth, TX, 19 October
Contact Julee Neathery
817-790-0405
jpinneda@bankingwithlife.com

Our comprehensive *Becoming Your Own Banker*[®] seminar is organized into a five-part, ten-hour consumer-oriented study of *The Infinite Banking Concept*[®] and uses our book *Becoming Your Own Banker*[®] as the guide. Typically, Nelson covers the concept's fundamentals in a two-hour introductory block the first day. He then covers the "how to" over an eight-hour block the final day.

These seminars are sponsored, therefore attendance is dictated by the *seminar sponsor*. If you are interested in attending one of these events, please call or email the contact person listed with the seminar information.