



2957 OLD ROCKY RIDGE ROAD
BIRMINGHAM, ALABAMA 35243

BANKNOTES ARCHIVES:

INFINITEBANKING.ORG/BANKNOTES

NELSON NASH, FOUNDER
NELSON31@CHARTER.NET

DAVID STEARNS, EDITOR
DAVID@INFINITEBANKING.ORG

My Mother and Franklin D. Roosevelt

by R. Nelson Nash

To put this story into context we will need to go back in time to the Spring of 1957. That was when I was introduced to the Austrian School of economic thought through The Foundation for Economic Education (FEE). The book *Economics In One Lesson* by Henry Hazlitt is where my journey began. A radiologist in my town had loaned me his copy.

I had never been exposed to such clarity of thought before. Please understand – I made a D+ in Economics 101 in college primarily because all those Keynesian ideas being taught made absolutely no sense to me. None of it corroborated the teaching of my Christian upbringing. I knew something was inherently wrong in their ideas.

What a “breath of fresh air” it was to find a source of knowledge where I could begin my study of clear economic thought! I subscribed to the monthly journal, *The Freeman*, published by FEE. And there were all those books and authors that were recommended from which to learn, too! It became a passion – and continues to do so to this day. How fortunate I have been!

After several years of this pilgrimage I began to think about the origin of the false ideas and teachings that abound in our world. They are in such contrast to the Austrian School of thought. Who started them? Why did they do so? Why are they so appealing to people?

Because of my primary study in life -- *The Bible*

and the Christian Faith -- I reasoned that it was the contrast of “group thinking” versus “individual thinking.” One does not become a Christian because of joining a certain church. One becomes a Christian through a personal relationship with Jesus Christ. That is an individual decision and commitment. No other person or group of persons can do it for you!

But, here is where the “rub” (a difficulty, especially one of central importance in a situation) appears. I have never known a stronger Christian believer than my mother -- but she thought that Franklin D. Roosevelt was “the son of God!” What a dichotomy of beliefs! How could this be?

To understand this part of the story we have to go back further in time. It was 1936 and the venue was Athens, GA, a small college town at that time. If you have ever been there then you know that it is a very hilly town. Automobiles did not have automatic transmissions in those days. I was five years old at that time. My younger brother was two. Franklin D. Roosevelt was coming to Sanford Stadium at the University of Georgia to speak. My mother had never driven a car in her life before this event. In fact, this was the only time I ever saw her drive one! Somehow or another she got us in that car and managed to take us to hear FDR speak at Sanford Stadium! To her, at that time, it was a very important thing to do. You see, it was in the midst of the great depression – and FDR was there to save us all!! That was the mindset of so many people at that time.

When I have told this story to folks they ask, “How do you remember all these details of something that happened seventy-nine years ago when you were only five years old?” My response, “If you had been in that car under the circumstances I just described

(hilly terrain, stick shift transmission and a woman driver that was at the wheel for the first time) then you would remember it vividly!" It was a miracle that we made the trip there and back safely and with no damage to the car.

After many years of study of Austrian economic thought I wondered how all those other Socialist ideas that dominate our world began. I concluded that it probably began during my parent's generation. It seemed to me that these folks swallowed the FDR nonsense "hook, line and sinker." So, that was a generation that I would not have liked to belong to. Since I classify myself as a slow learner, I lived with that misunderstanding for, maybe, five years. Then it dawned on me that my parents were only in their mid-thirties at that time and people of that age really don't have all that much influence on what is happening in the world.

This led me to conclude that it must have occurred earlier – perhaps my grand-father's generation. I lived with that understanding for a couple of more years. Further study about human behavior led me to understand that ideas aren't accepted immediately – they require a gestation period of about one generation. Therefore, the change must have begun somewhere in time around my great-grandfather's generation -- maybe the 1890's. I recalled that this was the era that Bismarck in Germany introduced the idea to Social Security to the world. All the pieces of the puzzle were beginning to fit in my mind concerning the march of Socialism that I was witnessing.

And then I read *The Fateful Turn* by Dr. Clarence B. Carson. What a delight to read his explanation of the pattern of events that met my own observations almost exactly! There was a significant change in the way men thought that occurred about that time in history.

But, was this really the starting point of all the chicanery that predominates today? Hardly! It's like peeling back the layers of an onion – there is one more layer – and one more layer, etc. To keep peeling back the layers to find the source of fallacious thinking requires reading a lot of books. This is why the study of history is such an important endeavor.

By the way, I am not endorsing the history one learns in academia. To understand my meaning here I refer to Napoleon's observation, "History is lies agreed upon." So much of the history we are exposed to in academia was written shortly after an event and thus tends to contain a certain bias. Hence, the need for revisionist history that tends to give us a deeper insight as to what really happened. – and why it happened. As the radio personality of recent years used to sign off from his topic of the day, "And, now you know the rest of the story."

One of the most revealing books that address my subject in this article is Dr. Clarence b. Carson's *The World In The Grip Of An Idea*, written in the mid 1970's.

It is all about how you think!

The Euro: The Folly of Political Currency

By Robert P. Murphy

January 04, 2012 (*Note the publishing date*)

The financial markets continue to surge and collapse based on the latest news from Europe. As of this writing, the big events are Slovakia's unwillingness to contribute to a bailout fund and the failure of Dexia, a French-Belgian bank with assets of almost \$700 billion. As the sovereign debt crisis has intensified in the last few months, it is becoming a real possibility that the euro itself will soon collapse.

Even if it managed to squeak through and survive—aided by massive taxpayer infusions along the way—the euro's vulnerability underscores the folly of a political currency. More so than any other currency in history, the euro has been a creation of technocrats working for modern nation-states. That the euro may well be on its deathbed hardly a decade after its birth demonstrates the futility of central planning. A durable monetary system, free from recurring crises, can only emerge spontaneously from voluntary exchanges in the marketplace.

The European Union and euro were officially created

by the Maastricht Treaty in 1993. In addition to the political and cultural objectives, the EU and the single currency, which went into circulation in 2002, were significant steps in the effort to turn Europe into a unified economic zone patterned after the United States.

Before the introduction of the euro, a large business based in France that, say, had a factory paying workers in Italy and which bought machine parts from Germany would be vulnerable to shifts in the exchange rate between the franc, lira, and mark. But with a single currency the firm could focus on its customers and product lines, rather than worrying about the foreign-exchange market. This stability across the continent would (supposedly) give European businesses the same advantages that U.S.-based firms enjoy, since Americans in all 50 states use the dollar.

Because a currency's ability to facilitate transactions only increases as more people use it, at first we might expect that the nations adopting the euro would want as many of their neighbors as possible to join. Yet in reality there were formal rules (called the Maastricht criteria, also the "convergence criteria") that new applicants needed to satisfy before adopting the euro. The rules set standards for countries' inflation rates, budget deficits, government debt, exchange rates, and long-term interest rates.

At first glance it seems odd that the developers of a new currency would want to restrict its usage. To repeat, the whole point of a currency union is to reduce transaction costs among the individuals using it. Thus it would seem that these benefits would only increase as the group grew.

Yet there are other factors at work, which the designers of the euro understood (if only imperfectly). In particular the euro is a *fiat currency*, meaning that the printing press could be used to achieve political ends. This explains why governments already using the euro are reluctant to admit relatively spendthrift governments into their club: There is a danger that the more profligate members will hijack monetary policy directly, or that they will require a monetary bailout (as we are seeing in practice).

Benefits of a Commodity Standard

Notice that these potential problems would be nonexistent under a fully backed commodity standard. For example, suppose that the creators of the euro, rather than reading the work of mainstream monetary theorists such as Robert Mundell, instead had studied the proposals of Ludwig von Mises in *The Theory of Money and Credit*. In this alternate universe the authorities in Brussels would stand prepared to issue new paper euros to any individual or institution (including governments and central banks) that handed them a fixed weight of gold.

Under this Misesian scheme the monetary authorities would maintain 100 percent gold backing of the currency; there would be the required weight of actual gold sitting in the vaults in Brussels backing up every paper euro in existence. In this scenario the authorities in Brussels wouldn't care about the creditworthiness or the spending habits of the institutions applying for new euros. So long as the applicants handed over the correct amount of physical gold, the authorities would be happy to print up the appropriate number of euros.

The reason for this nonchalance is that the various users of the euro—if it were backed 100 percent by gold—couldn't affect the euro's purchasing power because they couldn't affect future "monetary policy" regarding the currency. If the people in Region A used the euro, they wouldn't be affected by (say) a default on bond payments by some government in Region B that also used the euro. The euros in existence, as well as the ones to be issued in the future, would have a constant redemption rate in gold, regardless of the fiscal solvency of a particular user of the euro.

In case the Misesian thought experiment is too fanciful, we have a much more pedestrian (if imperfect) example: U.S. state governments and their use of the dollar. If the California or Illinois state governments default on the billions of dollars in outstanding bonds that they have issued, no one is worried that this will lead to a collapse of the dollar itself, or that the relatively frugal states (such as Idaho) will elect to leave the "dollarzone" and adopt their own currency.

Thinking through the logic of the situation, it becomes

clear that the reason for the difference is that the Federal Reserve (at least in the past) wouldn't bail out insolvent state governments. To be clear, the people in Idaho might be affected by a default on California state bonds, but not because both areas used dollars as their currency.

However, if the Fed *did* start bailing out insolvent state governments, then the various states in the "dollarzone" might sit up and take notice. People in Idaho would realize they were paying higher prices because the Fed was creating billions of new dollars out of thin air to prop up the market for state bonds. In this environment a coalition of frugal state governments might demand that their profligate peers adopt austerity measures or else the frugal states would indeed abandon use of the dollar.

As this thought experiment illustrates, we can imagine a situation analogous to the crisis in Europe right here in the United States. All it would take is a Federal Reserve willing to issue extra dollars because member governments ran irresponsible fiscal deficits. We *don't* currently link state government finances and the fate of the dollar because the Fed thus far hasn't altered its policies based on state spending. Under a fully backed commodity standard, this independence of monetary and fiscal policies would be more absolute and would have prevented a crisis like the one now unfolding in Europe.

Those who have followed the mainstream economists' handling of these issues know that gold convertibility is hardly touted as a solution to the euro crisis. In fact Paul Krugman recently blamed the crisis on the attempts to foist a "nouveau gold-standard regime" on European countries.

This is quite an extraordinary spin. How in the world could Krugman take a fiat currency, explicitly designed from day one by technocrats and without even a historical connection to a commodity money, and denounce it as a modern-day gold standard?

The answer is that Krugman is relying on the mainstream theory of optimal currency area. This theory tries to outline the optimal jurisdictions for different fiat currencies. In this approach the downside

of having too large a region using the same currency is that the "optimal" amount of inflation might differ within the region, leading to unnecessary economic pain and hence political conflict.

In the present crisis Krugman and many others think the "obvious" solution would be for Greece to devalue its currency. This would make it easier to repay its debts and would make Greek exports more competitive, thus boosting economic growth.

Alas the problem (according to people like Krugman) is that Greece is not the master of its own economic destiny. Since it adopted the euro it is now powerless to inflate its way out of trouble. Thus the Greeks are condemned to suffer from fiscal austerity and a painful deflation of wages and prices (also known by the misleading term "internal devaluation").

Now we can understand the (tepid) connection that Krugman and others are drawing between the current situation in Europe and the classical gold standard. Under the latter, if one country printed too much money its domestic prices would rise faster than those of its peers. The country would experience a trade deficit as its own exports became relatively expensive. The outflow of gold from the country would force officials to tighten monetary policy until wages and prices had fallen (if not in absolute terms, at least relative to the levels of other nations) and international competitiveness had been restored. Under the classical gold standard each nation's currency was pegged at a fixed exchange rate to gold, so that no country could gain an advantage by devaluing its own currency. All adjustments to ensure sustainable trading patterns had to occur through changes in relative prices and wages, not through fluctuations in exchange rates.

Further Integration

The mainstream theory of optimal currency area sheds light on another (alleged) lesson being drawn from the present crisis: the need for fiscal union among the eurozone states. For example, Mario Draghi, the incoming head of the European Central Bank, recently said Europe needs to "make a quantum step up in economic and political integration." Mainstream theory shows that it is suboptimal to have a single

currency covering areas with governments enacting different fiscal policies, and hence the “obvious” conclusion is that the European governments must be brought under the control of a single agency.

As usual one intervention leads to another. After historically co-opting and then suppressing the market-chosen monies (gold and silver), the European governments in recent years upped the ante by creating a new fiat currency. Even though the ostensible safeguards failed miserably—Greece and several other participating governments have come nowhere near obeying the Maastricht criteria—the alleged solution is the creation of even more centralized power, with even less control by the people being so ruled.

The people of Europe are being conned. They do not need to sacrifice even more political sovereignty to a group of international bureaucrats and bankers. The dream of the euro—an integrated economic zone with a stable currency—can be achieved through the classical-liberal tenets of free trade and sound money. Continued experiments with fiat money regimes will lead us through a perpetual series of crises, until we are left with a single global fiat currency, the issuer of which has zero accountability to the hapless citizens forced to use it. According to many cynical observers, this after all may be the ultimate plan.

Robert P. Murphy is senior economist with the Institute for Energy Research. He is author of *Choice: Cooperation, Enterprise, and Human Action* (Independent Institute, 2015).

Comment by R. Nelson Nash – Robert P. Murphy is also one of the four directors of the NELSON NASH INSTITUTE. We are indebted to him for bringing his insight to our economic world.

The Broken Window Fallacy and "Blessings" of Destruction in the Real World

July 15, 2015 Matt Palumbo

In the early nineteenth century, Bastiat posed the story of a young man who throws a brick through the

window of a baker's shop. We're told that this may have a bright side — that the baker must now pay a glazier to fix the window, who will then use that income to spend elsewhere, creating a ripple effect that benefits many.

Such thinking is reminiscent of what would later be used to justify the logic behind the Keynesian multiplier. Keynes would later write in the *General Theory*, “Pyramid building, earthquakes, even wars may serve to increase wealth.”

The Opportunity Cost of Fixing Things

As many readers already know, such logic fails to take into account the opportunity cost of the broken window. Had the window not been broken, the baker wouldn't have paid the glazier, but maybe he would've spent the money on a pair of shoes instead. The shoemaker would then have income to spend elsewhere, and the same multiplier would take place — but society would be better off by exactly one window.

Before diving into the modern real-world evidence that substantiates Bastiat's brilliant essays, it's important to distinguish between income and wealth. Destruction may boost income in the short run, but reduce a society's net amount of wealth (the purpose of production in the first place). To play off an interesting piece by Ryan Young in the *American Spectator*, Suppose we have a small island, whereas all wealth is in the value of homes, personal property, business properties, and infrastructure, with a value of \$10 million. Now let's say that economic growth is slow, many are unemployed, and aggregate wealth is projected to increase to \$11 million next year.

Next, a violent natural disaster occurs, destroying the nation's entire stock of wealth. Since economic growth was slow and many were unemployed, everyone on the island directs their attention to rebuilding from the disaster, and within a year, everything is back to normal. In the statistics, GDP is boosted by \$10 million — ten times higher than it would've otherwise risen, yet the wealth of society remains unchanged.

Such a scenario is reflective of what occurs in the

short run. In May of 2012, Paul Krugman highlighted Japan's superior first quarter economic growth relative to other nations, attributing it to increased government spending following the tsunami in 2011. But as Young noted, this doesn't take into effect that natural disasters have on a nation's stock of wealth.

The "Benefits" of Deadly Cyclones

Now, onto the real-world evidence. Published in the National Bureau of Economic Research, economists Solomon M. Hsiang and Amir S. Jina looked at the long-run economic effects of environmental catastrophe, focusing on destruction from cyclones in particular. Nearly seven thousand cyclones that occurred from 1950–2008 were studied. The conclusions were that the worse the disaster, the worse long-run economic growth suffered. According to their data, "fifteen years after a strike, GDP is 0.38 percentage points lower for every 1 m/s of wind speed."

While I constructed an example earlier where destruction would have positive effects on income in the short run, such effects disappear when the short run becomes the long run. Their research also found that a disaster in the 90th percentile reduced incomes by 7.4 percent two decades after. This led the authors to reject the "creative destruction" hypothesis in regards to natural disasters.

Defenders of the supposed blessings of destruction also have to take into account another variable: the value of human life. Following an earthquake in May of 2008 that killed 80,000 in the Sichuan Province, the Chinese government's State Information Center found a silver lining: economic growth would be boosted by an additional 0.3 percent that year due to money spent on rebuilding the devastated region. Even assuming that this growth wasn't offset by slower growth in the long run, it's still not a viable plan. Economic growth in China was 18.1 percent in 2009, growing by nearly five trillion yuan from the year prior. Assuming that the Chinese government is correct and 0.3 percent of that was attributable to rebuilding from the disaster, this means that GDP was boosted by roughly 5,300,000 yuan for each death, or roughly \$860,000. To put that in perspective, the

Environmental Protection agency in the US sets the value of a human life at \$9.1 million, while the Food and Drug Administration pegs that figure at \$7.9 million.

The purpose of Bastiat's essay on the broken window was to illustrate the concept of opportunity cost at a minor level, focusing on a minor act of vandalism. As we've seen from real-world evidence, the opportunity cost of destruction is seldom society being worse off by only a single window, but much worse when we take into account the long-run effects it has on income and wealth, and human life.

Comment by R. Nelson Nash – Matt Palumbo exposes the fallacious thinking of Paul Krugman very well in this article. And to think, Krugman was awarded a Nobel Prize for his work! Somehow or another it reminds me of the Nobel Peace prize awarded to Barack Obama! To me it doesn't speak well for the value of a Nobel Prize.

Nowadays, Health Insurance Isn't Really Insurance

July 30, 2015 — Jim Fedako

Due to Obamacare, my health plan has become something other than insurance. It is now, for the most part, nothing other than a wealth transfer scheme to benefit the politically connected over others.

In order to identify the difference between health insurance and government-mandated health care coverage, we can look to *Human Action*, in which Ludwig von Mises splits probability into class probability and case probability:

Class probability means: We know or assume to know, with regard to the problem concerned, everything about the behavior of a whole class of events or phenomena; but about the actual singular events or phenomena we know nothing but that they are elements of this class.

Case probability means: We know, with regard to a particular event, some of the factors which determine its outcome; but there are other determining factors

about which we know nothing.

David Howden explains that events such as football matches and wars are events that fall under case probability. But those events do not lend themselves to insurance.

Indeed, Mises claims that only risk associated with class probability can be remediated by insurance. This is true because the number of payoffs is relatively predictable within a class, allowing premiums to be set that benefit both the insurer and the insured.

This is the way in which life insurance works, for example, as Howden explains:

Life insurance works because insurance companies can play the averages. Some people who own a life insurance policy will die before the insurance company earns enough money on the premiums to pay the death benefit. In this case the company loses money. It offsets these losses with the gains it makes on those who die long past the point where they have broken even on the premiums they have paid relative to the death benefit they will receive.

Discrimination in the life insurance market is not only a fact of life; it is fair. Every policy holder pays according to his odds of death. People are free to undertake risky activities, but they must pay the price. People who choose to live less risky lives — that is to say, avoiding those activities that increase one's probability of death such as skydiving or smoking — lose out on the enjoyment these activities may provide, but they gain by paying less for life insurance.

Broken arms and certain diseases would also fall under class probability, and would also lend themselves toward being profitably insured in a functioning market.

But, due to changes resulting from Obamacare (as well as decades of government meddling), distortions in the market have thrown the health insurance market out of whack, and my health plan, and the plans of many others, now have high deductibles for “class probability” events such as broken arms, while providing “free” access to goodies that are only unpredictable in so far as I may or may not choose

to use them, such as a “free” annual physical, birth control, and more.

As Mises knew, “insurance” that covers an event such as a voluntary checkup, bears little resemblance to what we would consider to be insurance in the proper sense. Nevertheless, the freebies (i.e., “insured” events) are numerous, not because insurance companies can calculate a way to profitably insure them, but because they are mandated, thanks to interest groups with access to legislators.

The Politics Behind Mandates

Nevertheless, because the distributed costs are minimal and unseen, while the benefits are concentrated and substantial, little opposition arises from voters to fight such transfers of wealth.

As an example, I pay an extra, say, \$1 in monthly premiums so that someone else can reap \$50 in benefits per month. Stack up those \$1 premium increases among all payers and we begin talking real money. However, I have neither the time nor energy to oppose each \$1 increase.

This process becomes obvious when, because of my high deductible, the infrequent and unpredictable accident that falls under class probability — my son breaks an arm — costs me thousands out of pocket, without any monetary benefit from my plan, while others celebrate access to goodies they should be purchasing on their own as uninsurable events.

It is as if, because of government interventions, my car insurance pays for upgrades to Sirius Satellite Radio (which I do not have), but, because of high deductibles, only pays a few thousand dollars should I have an accident that totals my car.

Insurance does still exist with regard to life, home, and auto. But it does not exist with regard to health in our present regulated economy. Health plans are wealth transfers that bestow known and predictable benefits on the few while leaving all at risk of the vagaries of life. So, let's not claim that our system of government-regulated health care system is insurance.

Comment by R. Nelson Nash – All these so-called “health insurance plans” (mostly) are nothing more

than a time payment plan for routine medical care. These plans came into being because people don't have any money. They have been trained to rely on what is really a "banking function." Note the results of this kind of thinking and its results – skyrocketing costs!

Keeping the Bubble-Boom Going

August 19, 2015 — Thorsten Polleit

The US Federal Reserve is playing with the idea of raising interest rates, possibly as early as September this year. After a six-year period of virtually zero interest rates, a ramping up of borrowing costs will certainly have tremendous consequences. It will be like taking away the punch bowl on which all the party fun rests.

Low Central Bank Rates have been Fueling Asset Price Inflation

The current situation has, of course, a history to it. Around the middle of the 1990s, the Fed's easy monetary policy — that of Chairman Alan Greenspan — ushered in the "New Economy" boom. Generous credit and money expansion resulted in a pumping up of asset prices, in particular stock prices and their valuations.

A Brief History of Low Interest Rates

When this boom-bubble burst, the Fed slashed rates from 6.5 percent in January 2001 to 1 percent in June 2003. It held borrowing costs at this level until June 2004. This easy Fed policy not only halted the slowdown in bank credit and money expansion, it sowed the seeds for an unprecedented credit boom which took off as early as the middle of 2002.

When the Fed had put on the brakes by having pushed rates back up to 5.25 percent in June 2006, the credit boom was pretty much doomed. The ensuing bust grew into the most severe financial and economic meltdown seen since the late 1920s and early 1930s. It affected not only in the US, but the world economy on a grand scale.

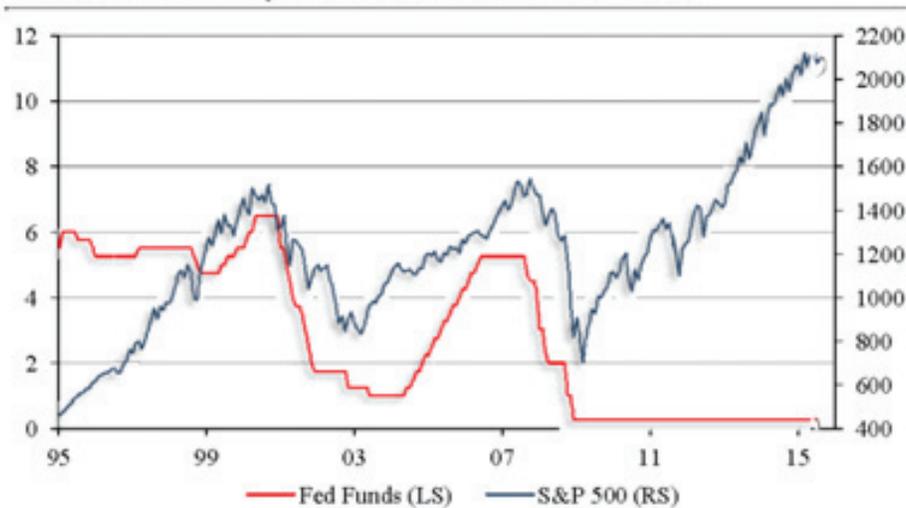
Thanks to Austrian-school insights, we can know the real source of all this trouble. The root cause is central banks' producing fake money out of thin air. This induces, and necessarily so, a recurrence of boom and bust, bringing great misery for many people and businesses and eventually ruining the monetary and economic system.

Central banks — in cooperation with commercial banks — create additional money through credit expansion, thereby artificially lowering the market interest rates to below the level that would prevail if there was no credit and money expansion "out of thin air."

Such a boom will end in a bust if and when credit and money expansion dries up and interest rates go up. In *For A New Liberty* (1973), Murray N. Rothbard put this insight succinctly:

Like the repeated doping of a horse, the boom is kept on its way and ahead of its inevitable comeuppance by repeated and accelerating doses of the stimulant of bank credit. It is only when bank

US Federal Funds Rate in percent and the S&P 500 stock market index



Source: Thomson Financial.

credit expansion must finally stop or sharply slow down, either because the banks are getting shaky or because the public is getting restive at the continuing inflation, that retribution finally catches up with the boom. As soon as credit expansion stops, the piper must be paid, and the inevitable readjustments must liquidate the unsound over-investments of the boom and redirect the economy more toward consumer goods production. And, of course, the longer the boom is kept going, the greater the mal-investments that must be liquidated, and the more harrowing the readjustments that must be made.

To keep the credit induced boom going, more credit and more money, provided at ever lower interest rates, are required. Somehow central bankers around the world seem to know this economic insight, as their policies have been desperately trying to encourage additional bank lending and money creation.

Why Raise Rates Now?

Why then do the decision makers at the Fed want to increase rates? Perhaps some think that a policy of de facto zero rates is no longer warranted, as the US economy is showing signs of returning to positive and sustainable growth, which the official statistics seem to suggest.

Others might fear that credit market investors will jump ship once they convince themselves that US interest rates will stay at rock bottom forever. Such an expectation could deal a heavy, if not deadly, blow to credit markets, making the un-backed paper money system come crashing down.

In any case, if Fed members follow up their words with deeds, they might soon learn that the ghosts they have been calling will indeed appear — and possibly won't go away. For instance, higher US rates will suck in capital from around the world, pulling the rug out from under many emerging and developed markets.

What is more, credit and liquidity conditions around the world will tighten, giving credit-hungry governments, corporate banks, and consumers a painful awakening after having been surfing the wave of easy credit for quite some time.

China, which devalued the renminbi exchange rate against the US dollar by a total of 3.5 percent on August 11 and 12, seems to have sent the message that it doesn't want to follow the Fed's policy — and has by its devaluation made the Fed's hiking plan appear as an extravagant undertaking.

A normalization of interest rates, after years of excessively low interest rates, is not possible without a likely crash in production and employment. If the Fed goes ahead with its plan to raise rates, times will get tough in the world's economic and financial system.

To be on the safe side: It would be the right thing to do. The sooner the artificial boom comes to an end, the sooner the recession-depression sets in, which is the inevitable process of adjusting the economy and allowing an economically sound recovery to begin.

Comment by R. Nelson Nash – Hence, the importance of controlling the banking function at the personal level through embracing the Infinite Banking Concept as taught by the NELSON NASH INSTITUTE.

Greece's Biggest Problem Is Its Anti-Capitalist Culture

July 8, 2015 — Russell Lamberti

It's considered politically incorrect to criticize culture these days, but whether using euros or drachmas, in or out of the European Union, Greece really has to, somehow, sort out its cultural dysfunction. I'm not talking about its customs, traditions, architecture or music, and I'm definitely not talking about its food. I'm talking about its cultural anti-capitalism. The negotiations, deals, counter-deals, referenda, protests and everything in between all mean very little if Greeks, by and large, don't ditch their statist zeitgeist and rediscover Greek capitalistic exceptionalism.

A perfect example is Argentina. A default and sovereign crisis is supposed to chasten a nation into a sensible, market-oriented direction as the folly of debt-addicted big state crony socialism gets utterly discredited. It's a nice theory. But Argentina, thirteen years after its 2002 default, and after years of soaring inflation,

dollar shortages, and economic malaise, clings to its completely clueless, hyper-interventionist, socialist overlords who continue to run the economy into the ground. The reason is the core culture never changed. When your culture is toxic, up is down, black is white, socialist failure is capitalist failure.

In *The Anti-Capitalistic Mentality* Ludwig von Mises described this cultural anti-capitalism:

As John Doe sees it, all those new industries that are supplying him with amenities unknown to his father came into being by some mythical agency called progress. Capital accumulation, entrepreneurship and technological ingenuity did not contribute anything to the spontaneous generation of prosperity. If any man has to be credited with what John Doe considers as the rise in the productivity of labor, then it is the man on the assembly line. ...

The authors of this description of capitalistic industry are praised at universities as the greatest philosophers and benefactors of mankind and their teachings are accepted with reverential awe by the millions whose homes, besides other gadgets, are equipped with radio and television sets.

The biggest risk to Greece is not austerity or fauxsterity or default or the euro or the drachma. And it's certainly not the bogeyman of being frozen out of sovereign credit markets — it's that Greek culture remains antagonistic to free, unfettered markets and is chronically state-dependent.

Take another Latin American country: Venezuela. After suffering crippling inflation rates throughout the 1980s and 90s, the electorate went on in 1998 to vote in another central planning inflationist in Hugo Chavez. They re-elected him in 2000, 2006 and 2012, and his successor Nicolás Maduro in 2013, even while the country was in a hyperinflationary death spiral and heading toward outright economic collapse. Venezuela's problem ultimately is not fiscal mismanagement — it's an anti-capitalist culture.

And so it is with Greece. After already securing debt relief and effectively being allowed to default by restructuring its debts over the next fifty years

at subsidized interest rates — and after actually achieving economic growth in 2014 by cutting taxes and slashing the size of its sclerotic, bloated government — this toxic Greek culture prevailed once more and elected a team of socialist die-hards to drag it back into the mire. Of course it doesn't help that on the other side of the negotiating table is another bunch of central planners in the EU, IMF, and ECB. Nevertheless, Greece sits stuck between two central planning negotiation parties because its people have been too busy demanding goodies instead of freedom.

Most Countries Get Into Trouble — But Some Bounce Back Better Than Others

Any sovereign nation can overspend and get into financial trouble, and most have. It wasn't that long ago that Britain was forced to go cap in hand to the IMF in 1976 and cede its fiscal sovereignty to that institution. By the latter half of the 70s, Britain was a downright mess. America stealth-defaulted on its international obligations in 1971 and suffered a rolling inflationary economic crisis for the rest of the 1970s. Both these countries bounced back. As did Chile, Uruguay, and the Philippines after their fiscal and financial turmoil of the 70s and 80s.

But some don't bounce back, and I believe this happens when the national culture is, or has become, fundamentally anti-capitalist and resigned itself pathetically to cradle-to-grave state-dependency. In addition to Argentina and Venezuela, we've seen prolonged economic and financial malaise following painful crises in the likes of Zimbabwe, Ghana, Bolivia, Nigeria, Russia, Turkey, and now southern Europe. These countries don't seem to learn from their mistakes because they don't seem to want to or can't locate the lesson amid the intellectual haze of their cultural zeitgeist.

But really the lesson is clear. An economic crisis can jolt a fundamentally pro-capitalist (or mostly pro-capitalist) nation that had lost its way back onto the straight and narrow. But there is no guarantee of recovery when the culture has descended into infantile anti-capitalism, dysfunctional statism, and an antagonism toward entrepreneurial dynamism

and self-reliance. For these a crisis may not herald recovery but instead a longer, deeper national decline. Only a culture shift resulting from the spread of sound ideas can make Greece (and other countries) a fertile ground to accept real solutions. The need to spread the good news of liberty and free markets is clearly as urgent as ever.

Comment by R. Nelson Nash – Thanks to Russell Lambert for getting to the real root of the problem in this article. For a complete insight into this subject you should read THE GREAT UTOPIAN DELUSION by Carson, Cleveland and Barney. The back cover reads, “To our detriment, a single idea has changed our perception of individual freedom and liberty. You can buy it on our website.

VISION Chapter Three LOOT

by Leonard E. Read

Note - Frequent readers of BANKNOTES are aware of my relationship with Leonard E. Read and my admiration for his works during his lifetime. In the following issues I will be sharing his book, VISION, one chapter per month. It was written in 1978. What a privilege it was for me to know this great man! -- R. Nelson Nash

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

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

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

Not only do we need to know the ideas and practice the

ways, we also need the words to explain how freedom works its wonders. And what words will best describe and explain freedom's opposite? How does one make it clear that accepting coercively confiscated “benefits” is just as sinful as the confiscation itself? It would seem self-evident that if no one would accept social security payments there would be no governmental plundering to finance the program. And the same is true of thousands of other ignoble schemes.

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

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

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

So, why not use another word that has a chance of clarifying our meaning? Let's try an acronym – the first letters of several truly definitive words: **Living Off Others Thoughtlessly – LOOT!**

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

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

Emerson wrote, “Thought is the seed of action.”

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

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

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

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

Frederic Bastiat helps us to see through this shameful practice:

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

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

Only the hardened professional criminals – a fraction of the population—would personally so indulge themselves. The vast majority would refrain from

immoral action were it a you-and-me relationship. Honesty would prevail.

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

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

In St. Louis it was a Gateway Arch that taxpayers from every state were compelled to help finance. Elsewhere, a school, library, park, dam, housing

project or whatever. Is there a community in the U.S. A. without one or more such monuments to looting?

Minimum wage laws coercively invoked, with strong support from labor unions, cause large-scale unemployment, the burdens of which all taxpayers are compelled to share. This, too, is a form of looting.

Businessmen and their associations obtain legal prohibitions of free exchange, such as tariffs, embargoes and quotas. They are no less looters than are the striking workmen. How is this looting done? All others are deprived of the opportunity to produce in those fields – the looting or limitation of their livelihood and their lives.

At this point, let us be mindful of that old adage, “the pot calling the kettle black.” For we critics of looking may be looters ourselves. Plunder is so rampant that everyone is involved more or less – unconsciously participating or trapped beyond escape. Doubtless, you are trapped in the social security “lootery.” I am trapped in the socialist mail “system.” Examples

abound. This predicament poses the final question: What should we critics of looting go? What might the right tactic be?

Perhaps another acronym may help to clarify the creative force: **Living In Good High Thought; LIGHT!** To see the **LIGHT**, we need what I would call intellectual binoculars. We should see, not with just one, but with both eyes.

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

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

The half-blind see only the shadows. Those with "intellectual binoculars" can share the insight of Goethe:

Where the light is brightest, the shadows are darkest.

Nelson's Newly Added Book Recommendations
<https://infinitebanking.org/books/>

JFK and the Unspeakable: Why He Died and Why It Matters by James W. Douglass

Excuse Me, PROFESSOR –Challenging the Myths of Progressivism. Edited by Lawrence W. Reed. This is a valuable tool to have on hand -- a great book to read during a "bathroom visit."

Check out the YouTube.com video series by the *Independent Institute* - Love Gov: (5 Episodes) Watch them all. They are funny, while getting across an important insight.

Nelson's Favorite Quotes

It is hard to imagine a more stupid or more dangerous way of making decisions than by putting those decisions in the hands of people who pay no price for being wrong. -- Thomas Sowell

A lie can travel half way around the world before the truth can put its boots on -- Charles Spurgeon

Eventually you will reach a point when you stop lying about your age and start bragging about it. -- Will Rogers

Welcome the newest IBC Practitioners
<https://www.infinitebanking.org/finder/>

The following producers joined or renewed their membership to our *Authorized Infinite Banking Concepts Practitioners* team this month:

- [Carolina Montibelli - Renton, WA](#)
- [Winnie Lau - Edmonton, AB, Canada](#)
- [Russ Morgan - Birmingham, AL](#)
- [Clay Campbell - Houston, TX](#)
- [Jim Kindred - Saint George, UT](#)

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*.

**Nelson's Live Seminars & Events
for September & October 2015**
<http://infinitebanking.org/seminars/>

Calgary, AB, Canada - Live Nelson Nash Seminar
Sept 26, 2015

Contact Dale Moffitt
Life Wealth Legacy
Cell: 403.872.7135 – Fax: 1-866-227-9630
dale@macdevfinancial.com
www.macdevfinancial.com

Fort Worth, TX - Live Nelson Nash Seminar
Oct 9, 2015

Contact James C. Neathery and Associates, Inc.
817-790-0405
julee@bankingwithlife.com
<http://jamesneathery.com/>

***Edmonton, AB, Canada - Live Nelson Nash –
McGuire Financial Client Event***

Oct 17, 2015
This is a McGuire Client Event only. Contact the event sponsor, McGuire Financial for attendance information.
marg.zacher@mcguirefinancial.ca
780-462-1289

Nelson Nash Live Seminar in Framingham, MA
Oct 23, 2015

Contact phone # 817-239-6441; contact person
Nancy Jackson
nancy@bcbstexas.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.