

BANKNOTES

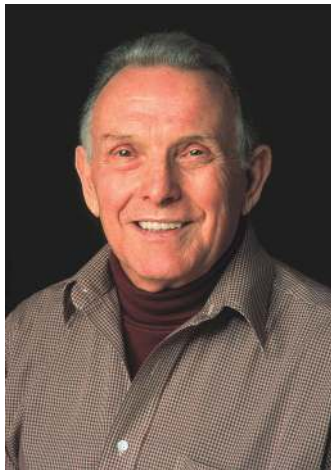
THE NELSON NASH INSTITUTE
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AUSTRIAN ECONOMICS + WHOLE LIFE = IBC - AN INTERVIEW WITH NELSON NASH

The following interview appeared in the December 2011 edition of the Lara-Murphy-Report.

R. Nelson Nash was born in Greensboro, GA in 1931, and married Mary Edwards Williams in 1952. Nash received a BS Degree in Forestry from the University of Georgia in 1952, and spent 30 years with the Army National Guard, where he earned Master Aviator Wings.



In addition to being a Consulting Forester for 9 years in eastern North Carolina, Nash was a life insurance agent with Equitable of New York for 23 years (Hall of Fame member), and The Guardian Life for 12 years.

*Nash describes himself as the “discoverer and developer” of The Infinite Banking Concept (IBC). He explains his revelation and how IBC works in his classic book, *Becoming Your Own Banker*, of*

which more than 200,000 copies have sold.

Nash is also the publisher of BANK NOTES, a quarterly [monthly] newsletter. He lectures all over the United States, teaching his book in ten-hour seminars, averaging 50 seminars per year.

Nash is a passionate student of Austrian Economics, having started this pursuit over 54 years ago.

Lara-Murphy Report: For the benefit of our readers who’ve never heard one of your seminars, can you explain how you discovered Austrian economics?

Nelson Nash: It was back in the mid-50s. I had to go on active duty with the Air Force upon graduation from college. When those two years were up, I moved to Eastern North Carolina to begin my forestry career. By the way, I did not work for the government – Smoky Bear and I don’t see things exactly the same. I worked for private landowners by contract.

I knew nothing about socialism, but, inherently I knew something was wrong about it. I also didn’t realize how much the ideas of socialism permeated

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the thought process of folks involved in forestry, so I came face-to-face with the mental paralysis that the monster creates in the human mind. I could not believe what I was witnessing! Why would anyone behave that way?

So, here I am “mouthing off” at a social gathering at the home of a radiologist about what I had experienced. He went back to his library and brought me a copy of Henry Hazlitt’s *Economics in One Lesson*. “Try reading this,” he said. A couple of weeks later I had finished it. I took it back to him and asked two questions, “Where have you folks been hiding this stuff?” and, “Why did you hide it from me?”

He replied, “If you liked it, get on the mailing list of this monthly journal called ‘The Freeman’ that is published by an organization called The Foundation For Economic Education (FEE). All you have to do is ask for it – and they will never ask you for money. But, they are entirely supported by donations. If you have not sent them some money in a year, they will simply take you off the mailing list.”

The more I read, the better it got. I was particularly attracted to the writings of Leonard E. Read and Dr. Clarence B. Carson. Within the next ten years I had become good friends with Leonard and he became my mentor. We had Leonard down to Birmingham every year for many years. Another ten years pass and my wife and I met Dr. Carson at a gathering that was sponsored for Foundation for Economic Education conducted by Leonard Read. Soon after we began to work with Dr. Carson on the board of directors of his organization. The study of Austrian Economics and history became my passion and remains so to this day.

LMR: Let’s suppose a reader is fully on-board with the basic Austrian message, but he doesn’t know much about life insurance. What would you say to this person, to encourage him to research the area further? Why is it worth his time, if he already understands the dangers of fiat money, central banking, and so forth? What is it that your perspective offers to him, that he’s currently lacking?

NN: That’s the reason I wrote the book, *BECOMING YOUR OWN BANKER* - Unlock the Infinite Banking

Concept back in October 2000. There is no way to give a simplistic explanation to one who is not acquainted with the concept. It takes time to develop a rationale that is totally different from what most folks think. So, life insurance agents who use my book to educate prospects/clients might say, “Mr. Prospect, I found this very interesting book – at least it is interesting to me – because it has changed the lives of thousands of people all over the country. I’d like your opinion of it. Would you read it and let me know what you think? Give me \$25.00 — that’s the retail price plus shipping costs. When you have finished it – if you don’t like it – I’ll buy it back.”

Or, one might say, “How would you like to make the interest that the banking industry is making off of you on the major purchases that you make during your lifetime, like automobiles, houses, business equipment, etc. – and do it on a tax-deferred basis? Read this book and learn how to do it.”

As to your other questions, practically no one realizes that the primary source of inflation in our economy is done through local commercial banks. They lend money that doesn’t exist! That is fraud!

When one makes a loan from a life insurance company and uses the cash value of his policy as collateral, there is no inflation of the supply of money. It is from savings by all the participants when they buy dividend-paying whole life insurance from a mutual company – that is, an insurance company that is owned by the policy owners. Very few people understand this fact.

LMR: Now let’s turn it around. Let’s say the reader has been a huge fan of your philosophy for years, and indeed she quit her previous job to become a very successful insurance agent, showing her clients how to solve their household’s financial problems with the disciplined use of properly designed dividend-paying, whole life policies. She knows that you happen to be a fan of Austrian economics, but views this as an incidental hobby you have, akin to you liking John Wayne movies. What would you say to such a hypothetical fan, to encourage her to learn more about the Austrian worldview? Why does she need to bother with all of that “boring econ stuff,” if she is

doing quite well in her current business?

NN: When one understands the teachings of Austrian Economics, and also understands how dividend-paying whole life Insurance works, it is easy to “connect the dots.” I have had a number of e-mails from people who have read my book and said, “This is Austrian Economics in action.”

LMR: Our roster of previous interviewees have attested to the immense growth in the popularity and influence of the Austrian school. Can you give us your perspective on the fortunes of the Infinite Banking Concept, perhaps telling us about your book sales and the acceptance of your views among insurance professionals?

NN: At this time, my book has sold over 200,000 copies. We know thousands of people who will never see a bank again in their lives – except for the convenience of a checking account. My wife and I have not used bank loans of any kind for over seventeen years – again, except for checking convenience. It is a very peaceful way of life in addition to being very profitable. By using life insurance policy loans to make the major purchases that occur in life, we are – in effect – making what the bank would be making off of us, tax-free. Do this over a number of years and the results are astounding!

Every month I am on a conference call with a large number of life insurance agents who are practicing this concept personally and with all of their clients. Just today, one of the agents was happy to report, “Thanks to what you have taught me, my family and I are now totally free of bank financing of any kind.”

Additionally, there are many home office people in the life insurance business who had no real appreciation of the power of this concept – and now they are own significant amounts of the product. They were standing in the middle of a fantastic solution to financial problems – and they never saw it because of the way they were taught. Infinite Banking Concepts is an educational organization that is dedicated to rectify this misunderstanding.

LMR: One of our favorite lines from a talk you gave

at our Night of Clarity conference in Nashville was something like, “In the decades that I have spent studying the Bible, I do not recall it saying, ‘And then Moses retired.’” Can you share with us your views on the typical American view, that you work at a job you hate for 45 years, so you can stack up a bunch of money and then start living once you retire?

NN: Retirement has got to be the most stupid idea that has ever come along. I have read the Bible through and through during my lifetime and I can’t find anywhere that it says, “And, so Moses retired and lived happily ever after...” The word “retirement” doesn’t appear in the vocabulary of human beings until about 1890. Bismarck, in Germany, came up with that idea. They were the ones who gave the world the idea of Social Security. He set age 70 as retirement age for German males – and life expectancy for those folks was probably around 50. The odds were that no one would ever live to receive income from the scheme. Along comes World War I and he reduced it to age 65. That’s where FDR got age 65 for American males for our Social Security in 1937 when life expectancy was around 61. Now life expectancy is 78. There is no way that the scheme can work. It will fail in due course – but our politicians say they are going to “fix it.”

There is no way that they can “fix” something that is inherently defective. Americans have been sold a bill of goods with this crazy idea. I’m working on writing a new book right now, entitled, *Building Your Warehouse of Wealth: Think About It*. The book will include an extensive chapter dealing with the subject of retirement. For further reading I suggest *The Pension Idea* by Paul Poirot, a small booklet that he wrote back in 1950. It is available on our website, www.infinitebanking.org. Mankind needs purpose in life. In March 2012 I will be 81 years old. There is no way to convince me to retire! This life is too much fun to miss out!

The Chicago School versus the Austrian School

by Robert P. Murphy

People often ask me, "How are the Austrians different from the Chicago School economists? Aren't you all free market guys who oppose big-government Keynesians?"

In the present article I'll outline some of the main differences. Although it's true that Austrians agree with Chicago economists on many *policy* issues, nevertheless their approach to *economic science* can be quite different. It's important to occasionally explain these differences, if only to rebut the common complaint that Austrian economics is simply a religion serving to justify libertarian policy conclusions.

Before jumping in, let me give a few obvious disclaimers: I do not speak for all Austrian economists, and in this article I will be discussing modern Austrian followers in the tradition of Ludwig von Mises and Murray Rothbard. (On methodology in particular, the Austrians in the Rothbardian camp differ somewhat from those who look more to Friedrich Hayek and Israel Kirzner for inspiration.) It's also important to note that not all Chicago school economists think alike. Even so, I hope the following generalizations are representative.

Methodology

The Austrians are oddballs among professional economists for their focus on methodological issues in the first place. Indeed, Mises's magnum opus, *Human Action*, devotes the entire second chapter (forty-one pages) to "The Epistemological Problems of the Sciences of Human Action." There was no such treatment in the last *Freakonomics* book.

Although most economists in the twentieth century and our time would disagree strongly, Mises insisted that economic theory itself was an *a priori* discipline. What he meant is that economists shouldn't ape the methods of physicists by coming up with hypotheses and subjecting them to empirical tests. On the contrary, Mises thought that the core body of economic theory

could be logically deduced from the axiom of "human action," i.e., the insight or viewpoint that there are other conscious beings using their reason to achieve subjective goals. (For more on Mises's methodological views, see this and this.)

In contrast, the seminal Chicago school article on methodology is Milton Friedman's 1953 "The Methodology of Positive Economics." Far from deriving economic principles or laws that are necessarily true (as Mises suggests), Friedman instead advocates the development of models with false assumptions. These false premises are no strike against a good theory, however:

The relevant question to ask about the "assumptions" of a theory is not whether they are descriptively "realistic," for they never are, but whether they are sufficiently good approximations for the purpose in hand. And this question can be answered only by seeing whether the theory works, which means whether it yields sufficiently accurate predictions.

Although Friedman's analysis sounds perfectly reasonable, and the epitome of "scientific," Mises thought it was a seductive trap for economists. For a quick illustration of the difference in perspectives, let me relay an example from my teaching experience.

It was a principles of microeconomics class, and we were using the (excellent) textbook by Gwartney, Stroup, et al. In the first chapter they have a list of several guideposts or principles of the economic way of thinking. As I recall, these are items such as "People respond to incentives" and "There are always tradeoffs." These were noncontroversial things that every economist would agree were important for getting undergrads to "think like an economist."

However, the one guidepost that stuck out like a sore thumb announced, "To be scientific, an economic theory must make testable predictions." I explained to the class that even though this was a popular view among professional economists, it was not one that I shared. I explained that everything we would learn the entire semester from the Gwartney et al. textbook would not yield testable predictions. On the contrary, I would simply teach them a *framework* with which

they could *interpret the world*. The students would have to decide whether the framework was useful, but ultimately their decision wouldn't boil down to "Did these tools of supply and demand make good predictions?"

After I went through my spiel, one of the students made the excellent observation that not a single one of the other guideposts was a testable prediction. He was right! For example, how could someone test the claim that "People respond to incentives"? I could say to a person "I'll give you \$20 if you cut off your big toe." Regardless of what happens, my claim is safe and secure. If the person doesn't cut off his big toe, it just shows that I didn't offer him a big enough incentive.

This is not mere philosophical grandstanding. Mises stressed that the important heritage of sound economic thought is not a collection of empirically tested claims about the behavior of economic variables. Rather, economic theory is an internally coherent framework for interpreting "the data" in the first place.

It's true that certain applications of economics involve historical evidence—such as investigating whether the Federal Reserve played an important role in the housing bubble—but this is a far cry from the typical mainstream economist's justification for mathematical model building.

Booms and Busts

Another major divergence between the Austrian and Chicago schools is their explanation for booms and their policy prescriptions for busts. The readers of this article are likely familiar with the Austrian view, so I will omit another discussion.

Chicago school economists obviously have nuanced views, but generally speaking they subscribe to the "efficient markets hypothesis." In its strongest form, the EMH denies that there could even be such a thing as the housing bubble (see here and here). Given their assumptions of rational actors and markets that quickly clear, and given that they lack a sophisticated theory of the capital structure of the economy, the Chicago school economists are forced to explain recessions as an "equilibrium" outcome due to sudden "shocks."

Historically they didn't consider the distortions caused by below-market interest rates (which of course are the key ingredient in the Austrian theory of the business cycle). However, recently more and more Chicago school critics of the Fed have been pointing out the dangers of Ben Bernanke's zero interest rate policy.

Ironically, the policy area where the Austrians and the Chicago school differ most is in regard to money, the issue in which Milton Friedman specialized. Friedman (and coauthor Anna Schwartz) famously faulted the Federal Reserve for not printing enough new money in the early 1930s to offset the decline fueled by bank runs. In our time, some Chicago-trained economists—who justifiably point to Milton Friedman himself for vindication—blame the crisis in the fall of 2008 on Bernanke's "tight money" policies. Naturally, these views are anathema to modern Austrians in the tradition of Murray Rothbard, who think that the central bank should be abolished.

Law and Economics

Finally, most modern members of the Austrian and Chicago schools have vastly different ideas when it comes to the field known as "law and economics." Whether based in natural law or the traditional inheritance from the common law, Austrians tend to think that people objectively have property rights, full stop, and that once we specify these rights the economic analysis can begin. In contrast, some of the more extreme applications of what could be called "the Chicago approach" would say that the assignment of property rights themselves should be determined on the grounds of economic efficiency. (In Walter Block's *reductio ad absurdum*, a judge decides if a man has stolen a woman's purse by asking how much each party would be willing to pay for it.)

This is a particularly subtle area that I cannot adequately summarize in this article. Suffice it to say that Austrians and Chicago school economists alike can appreciate the amazing insights—and challenge to the standard Pigovian critique of the market—contained in Ronald Coase's famous article. However, the Chicago school tradition has taken Coase's work to conclusions that many (perhaps most) modern

Austrians find repellant.

Conclusion

On typical issues such as the minimum wage, tariffs, or government stimulus spending, Austrian and Chicago school economists can safely be lumped together as "free market." However, in many other areas—particularly issues of pure economic theory—the two schools are entirely different. As a self-described Austrian economist, I would encourage free market fans who only know Friedman to add Ludwig von Mises and Murray Rothbard to their reading lists.

Robert P. Murphy is a Senior Fellow with the Mises Institute. He is the author of many books. His latest is *Contra Krugman: Smashing the Errors of America's Most Famous Keynesian*. His other works include *Chaos Theory*, *Lessons for the Young Economist*, and *Choice: Cooperation, Enterprise, and Human Action* (Independent Institute, 2015) which is a modern distillation of the essentials of Mises's thought for the layperson. Murphy is co-host, with Tom Woods, of the popular podcast *Contra Krugman*, which is a weekly refutation of Paul Krugman's New York Times column. He is also host of *The Bob Murphy Show*.

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The Problem with Measuring "Happiness"

by Arkadiusz Sieroń

Humanity has been asking what is happiness and how to achieve it since the dawn of time, but still without a definitive resolution. The divergence of views on this subject is enormous, although it may be a good thing, because each individual can pursue happiness in their own way, which—according to the Declaration of Independence—is an inalienable right.

For the stereotypical homo economicus—believing economist, the question is trivial: What can generate happiness if not money? Although no one jumps for joy observing growing GDP, its growth is correlated with better health and longer life and translates into

higher income. And higher income means a better standard of living. And indeed, research shows that wealthier people within a country admit to feeling more fortunate.

However, the puzzle of happiness is far from solved. Actually, it is only at this point that it starts to get interesting. Professor Richard Easterlin in his seminal article from 1974 showed that the inhabitants of richer countries are not happier than the citizens of less prosperous countries. Moreover, even within a given country, the average level of reported happiness does not increase systematically with the passage of time and economic growth. In other words, richer people are happier than the poorer at the moment, but an increase in income over time does not lead to an increase in happiness. This phenomenon has been called the Easterlin paradox.

Later research on this issue by Nobel Prize winners Daniel Kahneman and Angus Deaton showed that, of course, money matters, but only to a certain point. Income growth translates into greater happiness among Americans—but only up to an annual income of around \$75,000.

On this basis, some economists and publicists negate economic policies aimed at economic growth. They argue that since the increase in income does not translate into greater happiness, we should focus on other problems, such as income inequality or the environment.

This approach, however, confuses different notions of welfare. Economists generally understand welfare as the utility derived from the consumption of goods and services. However, the researchers of happiness consider this approach too narrow—which is why they extend prosperity to nonincome dimensions such as health, education, or even happiness. So, to measure welfare understood as happiness, they develop surveys and questionnaires to fill out. For example, people are asked about emotional well-being, i.e., feelings and emotions felt the day before the study.

What people have to say about their feelings is, of course, important, but we should be aware of the potential problems of survey research, such as the

problem of interpreting the answers given by people from different cultures or the possible distortions created by people's ability to adapt to bad conditions.

But let's return to Kahneman and Deaton. In their study, they only showed that *emotional* well-being does not improve after reaching a certain level of income. But at the same time they showed—which is often neglected—that *life satisfaction* rises steadily as income increases.

Which aspects of well-being are more important? Well, let's give voice to Deaton himself. In *The Great Escape* (p. 61) he writes that happiness is a poor measure of overall well-being, “because there are many places in the world where people manage to find happiness even in the midst of poor health and material poverty; life evaluation measures are much better measures of overall wellbeing.”

And people who earn more value their lives more highly, even if they do not feel happier. Of course, this is not a simple relationship, but generally, “the residents of richer countries systematically value their lives more highly than those of poorer countries” and “economic growth within countries improves life evaluation in exactly the way that we would expect from the differences in life evaluation between rich and poor countries” (p. 57).

What is important is that this relationship applies to the percentage changes in income. So, although the same *nominal* increases in income affect the life satisfaction of a wealthy person less than that of a poor person, the same *percentage* increases in income cause a similar improvement in life satisfaction. The very mistaken focus on absolute values led to the formulation of the Easterlin paradox!

The key thing is that the fact that wealth does not automatically generate happiness does not mean that a higher standard of living is not worth seeking. Actually, we should be glad that wealth does not automatically generate happiness—because it means that poverty does not necessarily mean a lack of happiness. However, just because people can adapt to every situation and can enjoy life even if they earn little does not mean that it is not worth improving the

quality of life.

For example, a person can get used to walking a dozen miles everywhere, but it does not change the fact that owning a bicycle would improve that person's situation. The level of happiness may return eventually to *status quo*, after a short spike generated by the purchase of a bike, but the new-old psychological balance will coexist with a higher standard of living. Subjective well-being could be similar, but transportation will take less time.

So, does the increase in income lead to happiness? It all depends on the definition. Studies show that an increase in income has a limited effect on subjective, emotional well-being, in line with the observation of hedonistic adaptation. However, growth of income positive affects life valuation and expands the people's opportunities to live a good life (the number of objective life options). Therefore, it seems that it is better to constantly strive for fast economic growth (rather than focusing on inequality or environmental issues). After the current recession, this task will be more urgent than ever.

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Did Jesus Despise Money?

by Lawrence W. Reed

“Jesus Christ regarded money as ‘filthy lucre’ and the root of all evil!” pronounced a student at one of my campus lectures a few months ago. That's not an uncommon view but it's also manifestly erroneous—completely and utterly false.

The student was responding to my lecture titled “Was Jesus a Socialist?”, based on a short essay I wrote in 2015.

I greatly expanded that essay into a book by the same title, and it's available for pre-order now from FEE, Barnes & Noble, ISI Books and Amazon.

The book examines a larger question of which money-related issues are a small part. Daniel Hannan of Great Britain wrote a terrific foreword. Editor/publisher Steve Forbes calls it “a learned and well-argued masterpiece.” Historian Burton Folsom says, “Thanks to this book, progressives will never again be able to claim with any credibility that Jesus would stoop to be a socialist.”

I hope you’ll order a copy for yourself and one for your pastor or priest or other interested party because, on this important topic, there’s nothing on the market as convincing and comprehensive. (*Thanks to readers for indulging my advertising*).

Money in Jesus’s day and what he said about it are interesting subjects, worthy of attention regardless of one’s faith, denomination or lack of either. Let’s take a look.

Jesus himself never used the phrase, “filthy lucre.” It appears only four times in the entire Bible. In each case, it’s employed by someone else and always in reference to theft or dishonesty, as in “loot” or “ill-gotten gain.”

Theft and dishonesty are targeted for unqualified condemnation throughout both Old and New Testaments, and from numerous prophets and sages. For example: “Don’t take money from anyone by force or accuse anyone falsely,” advised John the Baptist when questioned by a group of soldiers (in Luke 3:14). In Proverbs 11:1, we are told that “A false balance is an abomination to the Lord but a just weight is his delight.”

Jesus never suggested, even remotely, that money per se was an evil. He praised the earning of it through productive work and investment, as in the famous Parable of the Talents. He advised careful stewardship of it in business, as in Luke 14:28-30. He encouraged the private, voluntary giving of it to worthy purposes and charities, as in the Parable of the Good Samaritan. He praised those who supported ministries, missions and the temple by their tithes and offerings, as in the story of the widow’s mites in Mark 12:41-44 and Luke 21:1-4.

On many occasions, he urged people to help each other—including by way of donating money—to meet legitimate needs and improve conditions. You and I have done the same, perhaps on a daily basis at work or at home. Encouraging someone to help a person is one thing but compelling someone to give to help someone is quite another. Jesus called for personal, individual and free will-based generosity, not coercive, state-run redistribution programs.

Why do so many people think that because Jesus endorsed charitable giving, he would also embrace a compulsory welfare state? There’s a world of difference between the two. If I recommend that you read a book, would you assume I would support the state forcing you to read it? When your mother told you to eat your broccoli, did you think she was endorsing a federal Department of Vegetables?

More than once, Jesus cautioned against letting one’s character succumb to the harmful temptations and excesses that often accompany money. Similarly, he favored eating but not gluttony, sleep but not sloth, fasting but not starving, drinking but not inebriation.

And Paul, Jesus’s most famous and prolific apostle of the 1st Century, warned against the love of money but not money itself. In fact, to argue that a medium of exchange is somehow inherently evil would be one of the dumbest things for anybody to claim. Any economist will tell you that money—especially honest money that isn’t adulterated by fiat, fraud or false weights—facilitates a level of trade and standards of living that neither a primitive barter system nor a state-run allocation scheme could ever hope to produce. Biblical censure of dishonest money issued by inflating governments is at least as old as Isaiah’s excoriation of the Israelites, “Thy silver has become dross, thy wine mixed with water.”

Paper money made its first appearance a thousand years after Jesus’s time. Money in his day consisted exclusively of metallic coin. Judea being a Roman province when Jesus lived, its money was officially that of the regime of imperial Rome’s first emperor, Augustus, who ruled from 30 BC to 14 AD and that of his successor Tiberius, in power from 14 AD to 37

AD They issued a gold *aureus* and a silver *denarius* in a bimetallic regime whereby 1 aureus was equal to 25 denarii. When Jesus asked the Pharisees whose image was on the denarius (Mark 12:15), the reply was “Caesar’s.” It was probably that of Augustus.

Jerusalem was a center of international commerce at the time, so citizens of the area likely saw coins from many places and composed of other metals as well, giving rise to a thriving business of money changing. Jesus famously drove some of those money changers from the main temple (and never from a bank or a market) because it was not an appropriate activity for such a holy place. Certainly there was no reason to tolerate any disruption of services or harassment of worshippers. Ancient coinage expert David Hendin tells us:

Money changers and animal merchants were ubiquitous around the temple, even in the outer Court of the Gentiles. The money changers and sellers of livestock were forced to operate outside of the temple. Indeed, archaeological excavations along the Western Wall of the Temple Mount in Jerusalem have revealed a street and a row of small shops that likely housed money changers, sellers of small animals, and souvenir merchants.

Theirs was a good business, especially during the pilgrimage holidays. It’s easy to imagine how money changers and other merchants could become rowdy while competing for business (“Change here! Our commissions are lower!”). This competition must have reached a point of offensiveness when Jesus upended their tables...

Once, a man approached Jesus and asked him to use his power and influence to redistribute the wealth from an inheritance (Luke 12:13-15). The man claimed his brother received more than he should have, so Jesus should see to it that some of his brother’s money be taken away and given to him. Jesus’s response was to rebuke the man for his envy. “Who made me a judge or divider over you?” Jesus asked. Clearly, Jesus didn’t see money as a convenient instrument by which we can rob one to pay another to achieve wealth redistribution.

Frequently misunderstood is this important admonition from Matthew 6:24, repeated in Luke 16:13. Jesus said:

No one can serve two masters, for either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve God and money.

Some readers interpret these words as a blanket repudiation of money. If the choice is starkly defined as God or money, one or the other and no in-between, then of course a believer should opt for the former. But note the context: Jesus was not talking here about a consumer in a physical marketplace. You wouldn’t get very far if you said to the clerk in a department store, “Instead of cash for that shirt, let me give you a sermon.” When Jesus made this statement, he was speaking to a group of Pharisees, who were notable for their love of money above everything.

The key words are “serve” and “masters.” Jesus was referring to a reverential relationship. What do you worship? Which “master” do you listen to when their directives contradict one another? In other words, prioritize properly. Money has its place in economic life but should never be one’s most important focus. Don’t allow it or its associated temptations to rule you.

Bottom line: Whatever your faith may be (or even if you presently possess none), don’t make claims about Jesus and money that can’t be supported by his words and historical context. He never turned up his nose at the concept of a medium of exchange, or honestly earning it in productive commerce. He never suggested there was some magical limit to the material wealth a person should earn through peaceful trade. He did, however, advise against allowing money to run your life and rule your relationships.

Lawrence W. Reeds is President Emeritus and Humphreys Family Senior Fellow at FEE, having served for nearly 11 years as FEE’s president (2008-2019). He is author of the 2020 book, *Was Jesus a Socialist?* as well as *Real Heroes: Incredible True Stories of Courage, Character, and Conviction* and *Excuse Me, Professor: Challenging the Myths of Progressivism*. Follow on

LinkedIn and Twitter and Like his public figure page on Facebook. His website is www.lawrencereed.com.

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Negative Interest Rates: Rewarding Profligacy

by L. Dwayne Barney and Paul A. Cleveland

Presently there are trillions of dollars of bonds throughout the world with negative interest rates. This is an unprecedented turn of events, and one that has many nonprofessional investors confused. Savers are understandably puzzled as to how it is possible for bonds to carry negative interest rates. After all, would an intelligent person really lend \$1,000 to someone only to be paid back \$950 one year from now?

Economists historically have taken it as a given that people prefer current consumption over the promise of an equivalent amount of consumption at some specified date in the distant future. If you ask anyone whether they would like \$1,000 today or \$1,000 in ten years, or even in a year, the choice is uniformly for the immediate cash. The future is uncertain, and the preference is always for the immediate reward. Indeed, this preference for current over future consumption is why interest rates exist: people need to be compensated for postponing consumption to a future point in time.

How is it, then, that so many of the world's bonds are presently carrying negative yields?

Who is buying these securities? The answer is that they are being purchased by various central banks using new fiat money created with the express purpose of decreasing their yields. Central banks, having the luxury of legally and effortlessly creating new money, are not much concerned with the matter of whether bond prices are too high to make them a prudent investment. Rather, they purport to be actively managing interest rates for macroeconomic reasons such as to stimulate growth, encourage employment, and ensure that inflation is near its long-term "target."

Consider how the process works through a simple, albeit fictitious, numerical example. A rational investor would find it folly to pay \$1,030 for a bond that promises to pay back \$1,000 one year from now. But a money-printing central bank, having no profit or loss concerns, would not hesitate to buy such a security—profit is not an issue when bonds are bought with money that is created out of thin air. If the Federal Reserve chooses to create new money and buy bonds, it can drive prices up as high as it would like. In the case of our numerical example, if the Fed drives the price up to \$1,030, it has imposed a -3 percent interest rate on the market. If the central bank wants the rate to go even lower, say to -4 percent, then it is a straightforward matter of creating more money and buying more bonds to drive the price up to \$1,040.

Thus far, the Federal Reserve has stopped short of pushing rates into negative territory. Nevertheless, following the financial crisis of 2008, the Fed stepped up its purchasing of US government bonds and drove interest rates close to zero. The Fed continued to hold short-term rates well below what would prevail in an unhindered market and has doubled down on its monetary expansion amid the COVID-19 lockdown. Alternatively, foreign central banks have pushed beyond zero and driven interest rates into negative territory. In fact, there is mounting political pressure in the United States for the Federal Reserve to follow suit. The motivation for this intrusion into financial markets is the widely held belief that ever decreasing interest rates are necessary to expand real economic activity. In addition, politicians like low interest rates, because the latter make the payments on the large and growing national debt less of an immediate concern.

Throughout history governments have seen new money creation as a clever way to increase spending without having to increase taxes. In the United States the central bank is, at least in theory, "independent" of the federal government. This separation has tended to prevent runaway inflation resulting from excessive new-money financing of government spending programs. Of course, the federal government is still able to finance its spending by selling bonds. And, to

the extent that the bonds are purchased by the Federal Reserve with newly created money, it is essentially equivalent to having the federal government print the cash to finance its spending on its own. The only catch for a spendthrift government is that the Fed is not *required* to buy the government's bonds. Should the Fed decide not to continue buying the bonds, their prices would fall and interest rates would rise to a market-determined level. The US government is fortunate that this has not happened. Since the financial crisis the Federal Reserve has for the most part been a willing buyer of government debt, and interest rates have been driven to all-time lows as a result.

As central bankers have continued to push interest rates on bonds ever lower, savers are forced to search elsewhere for a decent rate of return. This has been especially true for retirees, who historically have looked toward government and corporate bonds as relatively safe investments for their retirement portfolios. Now, since these securities generate little to no return, they seek riskier investment options. The process begins by moving money into blue chip stocks and then later into shares of startup companies. Thus, we increasingly find them investing in shares of Spotify, Uber, and Tesla on the off chance that these companies eventually make a profit. (If this strategy doesn't work, the blackjack tables in Las Vegas present another alternative.)

Stock prices have been bid up ever higher as investors have been forced to flee from bonds whose yields are close to zero or even negative. Although the Federal Reserve did not buy stocks directly, its massive bond purchases over the past decade have distorted stock prices by pushing people out of bonds and into equities. Foreign central banks are driving up stock prices in a more direct manner. Many of them have no qualms about creating new money and purchasing stocks outright. An inspection of foreign central bank balance sheets will show a variety of assets, including shares of Apple, Microsoft, and so forth. Even with the current downturn in economic activity and the resulting drop in stock prices, many are still overpriced.

Higher stock prices are generally applauded as a sign that an economy is in good shape. And, there is an erroneous but widely held view that high stock prices are "good" for investors. One should be careful with such generalizations. More accurately said, high stock prices are "good" for those investors who are at or near the end of their work life and are already in possession of a large stock portfolio. A young person who is a new entrant into the labor force and is working feverishly to save enough cash to buy her first share of Apple does not benefit from having a pumped-up stock market. High stock prices are good for some people, and bad for others. Of course, a collapsing stock market will reverse these roles in short order and would certainly occur should the Fed eventually decide to allow interest rates to revert to actual market equilibrium.

In addition to this imposition on retirees, the Fed's downward manipulation of interest rates has another effect. Indeed, the move is simply a price ceiling keeping interest rates well below what would prevail in an unhindered market. Like all such price controls, this one creates a shortage of actual savings, which provide the sustenance for the capital investments beings made. That is, savers have less incentive to save and borrowers have a greater incentive to borrow funds. Such borrowing is only made possible by the creation of this new money that did not require greater actual savings. Eventually, this disconnect in the market must be realized, and bad capital investments will have to be liquidated.

This can be seen happening as students continue to mount up student loan debt. As of this writing student loan debt stands at a little over \$1.6 trillion. In 2008, when the financial crisis began, that figure stood at around \$600 billion. Beyond student loan debt, there is a constant barrage of advertising for older people to take out loans via reverse mortgages. Again, these represent a heavy amount of dissaving in the economy as people consume future resources and past savings.

So where does the current reality of central bank activism leave us? Through the purchase of bonds and stocks central banks are able to manipulate financial markets and real economic activity. To a great extent

a company's success or failure hinges upon its ability to obtain financial capital through the issuance of securities. A company whose shares are readily gobbled up by a money-creating central bank is going to be advantaged over a company whose shares are not treated as favorably. By lowering the cost of capital of one company and not another, central banks can ultimately determine who stays in business and who fails. This ability to pick winners and losers can work its way through markets to determine the collection of goods and services available for the consumer to choose from. This turns traditional thinking upside down. In the traditional view of free enterprise, those companies whose goods and services are valued most by consumers will see growth in revenue and earnings, and ultimately a higher stock price. The higher stock price is the reward to owners, generated by producing those things most desired by consumers. Those companies whose products are not as desirable will run short on cash, will not be able to sell shares of stock or borrow money, and will be driven out of business. But central banks can alter the process by providing costless financial capital to one company over another. An advantaged company can lower the price of its output when compared to its competitors, ultimately driving the competitor out of business. This then determines what goods and services will be available for consumers to purchase in the marketplace.

Recently there has been increased discussion as to whether central banks should expand their activities into environmental concerns, rather than merely focusing on the historical objectives of stable prices and maximum employment. From the foregoing discussion, one can see how companies that are deemed to be doing the "right" things could be advantaged and be the survivors in the marketplace, regardless of whether the goods and services that are being produced are things consumers actually want. Initial stock offerings that are greedily bought up by central bankers with the printing presses will always be a success. A competing company whose bonds and shares of stock are shunned will likely not be able to stay in business for long. Free markets and individual liberty cannot exist in a world where governments,

working hand in hand with their central banks, determine which companies survive and which fail.

The financial crisis of 2008 provided the justification for ever greater intrusion into financial markets by the world's central banks. COVID-19 has only added fuel to that fire. Ideas and policies that were previously thought of as preposterous, such as negative interest rates and outright stock purchases by central banks, are now increasingly accepted as the norm. Market manipulation through bond and stock purchases provides a less-than-transparent means whereby governments can take ever greater control over economic activity. As long as fiat money exists, and is readily created by governments through their central banks, free enterprise is at risk. The financial crisis of 2008 opened the door, and governments and central bankers cheerfully walked through it. Whether the current direction can be reversed remains to be seen. In the United States the Fed can strive to maintain a degree of independence, but this is going to be difficult given that the Fed chairman and the Board of Governors are ultimately political appointees. If politicians want negative interest rates, the Fed chair and Board of Governors can provide resistance only so long as they remain in their respective positions. New governors who wish to be more "accommodative" to the needs of the federal government and its spending programs can always be appointed. Freedom advocates find some encouragement in the nascent market developing for Bitcoin and other forms of free market money. Although digital currencies are still not widely used for the purchase of consumer goods and services, the development of private money is not subject to the whims of politicians. They do provide some hope for rational interest rates, security prices, and economic liberty.

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Fourteenth in a monthly series of Nelson Nash's personally written Becoming Your Own Banker® lessons. We will continue these lessons until we have gone through the entire book.

PART 1 Lesson 14: Creating Your Own Banking System through Dividend-Paying Whole Life Insurance (continued)

Content: Page 24-25 Becoming Your Own Banker Fifth Edition

In the previous lesson it should be obvious that this young man is paying \$310.00 per month to the pool of money -- \$50.00 directly, in the form of premiums, and \$260.00 indirectly, in the form of car payments. If he could understand what is really happening and pay the \$310.00 directly to the insurance company in the form of premiums for around four to five years, he could now make a policy loan and pay cash for the car.

But this is the most important part – the insurance agent must make him vividly aware that he must repay the loan at an interest rate that is at least equivalent to the interest rate of an automobile finance company – not what the policy calls for. In this case it should be at least \$260.00 per month. If the owner of the policy does this, then he will effectively make what the finance company would otherwise make and do it all on a tax-free basis. If the agent is really good and understands the principles of banking, he will encourage the policy owner to pay \$275.00 per month because the “extra” dollars will go to his policy (or policies) to increase the capital that can be lent to other parties.

If the policy owner objects and says something like, “It’s my own money and I’m not going to pay any interest at all”-- or even, “I’m only going to pay 2.9% as is advertised on the TV commercials” -- then the

agent must remind him of the grocery store example as taught earlier in this course and explain it all to him one more time. If he still doesn’t understand then the agent needs to have him revisit the First National Bank of Midland, TX and see how those folks killed the best business in the world. If he still doesn’t understand, the agent needs to resign from working with him because he is not teachable, or he is a thief! Neither of these characters is a good business associate.

You have now had an explanation of all the essential principles of “banking” through the use of dividend-paying life insurance, but to understand the infinite qualities of The Infinite Banking Concept requires a much deeper look. In the previous example of car financing, the capitalization really needs to be more than four years. Many college business professors estimate that corporations expect it to take at least seven years to make a profit on a new product. This is an understatement in certain circumstances. For instance, I have a degree in forestry, and I know it takes much longer than that!

So, why not capitalize at least seven years on each policy that one purchases, to the point where dividends will pay all the remaining premiums on the policy. The mechanics of this will be covered later on in this course, so let’s not bother with it at this time. Remember, I’m describing how all this works with the example of one policy—but you should be thinking on the basis of a system of many policies.

Would you have much of a grocery store if you were the only customer? You must build it to the point where you accommodate the needs of others in order to prosper. The same principle applies to banking. Have you not noticed that when a grocery store becomes successful in one location, then it tends to establish another store in another location?

Have you not noticed that banks have branch offices? There must be a reason for this.

Then, why not expand your own potential by buying all the life insurance on yourself that the companies will issue? And then, on all the people in which you have an insurable interest? At present, does not all

your income go through the books of some banking institution?

Don't the banks lend out the deposits of customers?

All banks do is capitalize the bank (Capital Stock) to make it a safe place for customers to deposit their money and then the banks lend out the money left on deposit. If they don't lend it out, they will go out of business.

It will take the average person at least 20 to 25 years to build a banking system through life insurance to accommodate all his own needs for finance – his cars, house, etc. But, once such a system is established, it can be passed on to future generations as long as they can be taught how the system works and suppress their baser instincts to “go out the back door of the grocery store” with goods. Or, to put it bluntly – to steal!



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

- Jake Chesney - Chicago, Illinois
- Gina Wells - Fenton, Michigan
- Mary Jo Irmen - Bismarck, North Dakota
- Mark Mappa - Glenview, Illinois
- Vivien Adao - Glendale, California
- Bryan Nelson - Irvine, California
- Wayne Durksen - Warman, Saskatchewan
- Isis Palicio - Coral Gables, Florida
- Kenneth Johnson - Columbia, South Carolina
- Vernon McCarty - Calgary, Alberta
- David Befort - Minneapolis, Minnesota
- Anthony Myers - Franklin, Tennessee
- Nancy Versoza - Union City, California
- Mike Priestley - Vestavia, Alabama
- Jim Oliver - Bonita Springs, Florida
- Colton McGriff - Birmingham, Alabama

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.