



# BANKNOTES

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## NOISE

R. Nelson Nash

NOISE: a loud or unpleasant sound

Full Definition of NOISE by Merriam-Webster

1: loud, confused, or senseless shouting or outcry

2a: SOUND; *especially*: one that lacks agreeable musical quality or is noticeably unpleasant

b: any sound that is undesired or interferes with one's hearing of something

c: an unwanted signal or a disturbance (as static or a variation of voltage) in an electronic device or instrument (as radio or television); *broadly*: a disturbance interfering with the operation of a usually mechanical device or system.

Have you ever noticed that we all are completely surrounded with noise in our daily lives? Even as I write these words I can easily hear the noise my computer is making and there is the noise that the keyboard makes each time a key is stroked. There is the noise that our air conditioning system makes. And, there is also the noise from the garbage truck on the street just outside my window! Thankfully, the truck will be gone shortly.

In my younger days I flew for over 28 years as a pilot for the Alabama Army National Guard. Fixed wing, piston engine, propeller driven planes, “low and slow” kind of aircraft. They make a lot of noise! After completing a mission that lasted for several hours and then getting into my car for the drive home, it was always so apparent *how quiet* my car was in contrast to the experience in the airplane just

a short time earlier. I could hardly hear the noise my car was making. Yet, by the time I got home, maybe 20 minutes later, I now was conscious of the noise of the car.

Maybe some of you have been subject to a hearing test where they put you into a booth where you are insulated from sound. But, have you ever experienced total silence in the outdoor world? My wife and I have been to Sedona, AZ many times. On one occasion we rented a car and toured “the boonies” – away from all civilization. We parked the car and climbed one of those buttes. It was a beautiful day. Not even noise from wind. No birds chirping. No insect noise. No noise of any kind! In contrast with the kind of noise that usually surrounds us -- it was kind of weird! When you experience this sort of thing you know immediately that something is different. But, highly enjoyable! The very thought of it makes me want to go back there!

For my birthday present several years ago, my wife gave me a Bose Noise Cancelling Headset since I travel a lot on airplanes. Have you ever experienced one of those things? It is wonderful. Just put on the headset and turn on the switch and it’s a whole new world. You can still hear announcements from the flight attendants and pilots, and even muffled voices of those people around you. But the usual airplane noise is practically gone! Nice! It makes reading a good book a lot easier, especially when you put foam earplugs in your ears first and then put on the noise-cancelling headset.

But, you may have also noticed, there is a huge amount of *other* types of noise that surrounds us. For instance, go to a drug store or other such emporium that sells magazines. Can you believe the volume

of nonsense that is contained on those shelves? Magazines that tell you what Charlie Sheen is doing today. What are the Kardashians up to now? What has Lindsay Lohan been arrested for this week? All kinds of *essential* information like that! The list could go on for several pages. Does anyone really care about all this sort of stuff? When I'm travelling on airplanes I am astounded at what I see people reading. I wonder what those people think about.

Maybe it's because I have been involved in the financial world for over 50 years that it is so apparent to me that the *greatest noise* to which we are all subjected is coming from the financial world. It is filled with utter nonsense that is, for the most part, absolutely worthless.

If you would like to challenge my assertion on this matter, then I encourage you to read a few books that will support my position. Try reading *Extraordinary Popular Delusions and The Madness of Crowds* by Charles MacKay. Read *The Failure of The New Economics* by Henry Hazlitt. For an entertaining (and accurate) perspective I suggest *Eat The Rich* by P.J. O'Rourke. In fact, just read anything by P.J. He is funny! And, oh, yes, be sure and read *Myths, Lies, and Downright Stupidity: Get Out The Shovel -- Why Everything You Know Is Wrong* by John Stossel.

If these four books don't do the job for you, then take a look at the recommended reading list on our website, [www.infinitebanking.org](http://www.infinitebanking.org). You will find it under the *Resources* tab.

Another example will help in getting my point established. I will never forget the first time I heard music on a high-fidelity record player. I realize that you may be one of the "millennial generation" or maybe, even a generation a little older and that you don't know what a record player was. Since this fact is not really a part of this paper, I suggest you just go ask your grand-father about it.

I could not believe my ears! How fantastic to hear such clarity! I forget the name of the maker of the instrument. Anyway, I could not wait to get a cabinet model by Magnavox. Wow! Joy supreme! But, after several months of listening to recordings on this

machine – would you believe it – I could hear the *noise* the turntable was making!!

My conclusion was that I should have spent about four times more money and bought "a real professional hi-fi set." I had a close friend who had one of those machines. So, I made a lot of visits with him to listen to his recordings. Again – would you believe it – after a while I could hear the noise his Garrard turntable was making, too!! With more exposure, our awareness becomes more developed.

Having been a student of the Austrian school of economic thought for 58 years, plus over 50 of involvement with the financial, world I believe I have developed, to some degree, the ability to recognize financial noise.

In order to cope with this "noise filled financial world" what we all need is the equivalent of a "*financial noise cancelling headset*." You will have to develop your own. No one can do it for you. You will have to learn to recognize financial nonsense when you see it and don't spend any of your valuable time examining it because it is wasted effort. But, you can get expert help from an Authorized Practitioner of *The Infinite Banking Concept* as taught by the **Nelson Nash Institute**. To understand -- and practice -- this concept requires a coach to get started and to guide you for many years into the future until you have developed the ability to tune out all the financial noise that you encounter. This is not to imply that the concept is complicated. To the contrary, it is very simple and practical. It is just *different* from all the financial noise that surrounds us.

**The Nelson Nash Institute** is revealing the power of a fundamental financial instrument -- one that has been around for a couple of hundred years -- that has been obscured by the financial noise that dominates our current world. But if you can learn to tune out the noise and listen to the truth, it can change your life!

## The Modified Endowment Contract aka The MEC

L. Carlos Lara

August 29, 2014

For those of us who have read Nelson Nash's book, *Becoming Your Own Banker*, or even for those of us who are just now entertaining the idea of doing so, the resultant understanding after reading it is that the platform used to set up the process for becoming your own banker requires a specially designed insurance contract. To be even more specific, it requires a dividend-paying Whole Life insurance policy with a special codicil known as a *Paid-up Additions Rider*. Of course, if you are not at all familiar with insurance vernacular, it's very possible that these terms may easily confuse you and soon have you scratching your head. Please understand that this is not at all intentional on the part of Nash, actually it's his best attempt of doing just the opposite since he is aware that he is writing to the general public, *not* financial professionals. He keeps his explanations light and uncomplicated for the public's benefit knowing full well that the public is generally unsophisticated in these matters and that the experienced insurance professional will be able to explain the technicalities of all these terms at the proper time.

This same undemanding explanation holds true when he introduces the Modified Endowment Contract (MEC) on page 38 of his book. By simply drawing a spectrum of various life insurance plans with a term policy at one end and a single-premium whole life policy at the other end, he then instructs the reader not to cross the line into the single-premium policy territory. In reality, however, following these instructions can only be accomplished using a life insurance illustration provided by an insurance professional. But here within the context of his book, Nash is providing the reader with facts that are important to his understanding when it comes time to prepare the illustrations. The caution he gives to not cross into the territory of the single-premium policy is because the IRS, by a ruling made in the 1980s, will

change the treatment of the policy from a standard insurance contract to an *endowment contract*.

Generally speaking, an endowment, for those that may not be acquainted with its detail, is funds, or property, received from an external donor. Donors usually give these bequests to non-profit organizations for an institution's on going support, with restrictions that the principal of the gift is to be retained in perpetuity. It can be spent only with certain stipulations. These non-profit recipients may include academic institutions, cultural institutions, such as museums or libraries, and religious organizations: think of "Harvard's endowment." Such institutions we all know are tax-exempt, but here in the explanation Nash is giving in his book the recipient is not always a non-profit and the tax-free withdrawal aspects contained in an insurance contract present certain technical issues that were noted by Congress and quickly addressed. Nash, who is familiar with the tax law, points out that as an endowment contract "*any withdrawal or loan from the plan would be treated as a distribution and would be taxed as from any other accumulation account, i.e., part is capital and part is earnings. The earnings portion is taxed as ordinary income in the year the withdrawal or loan is made. It is not a matter of earth-shaking consequences, but it can be avoided with a little bit of understanding of just what is going on.*"<sup>1</sup>

The purpose of this *LMR* article is to expand our knowledge on this important subject, discuss how this law came about, and hopefully shed some light on what is going on. Once we see what is really happening we realize the power of an IBC policy and what it is capable of doing in the economic climate we find ourselves in.

### The 1970s: Inflation and Its Impact on Savings

To better understand how the MEC rule came to be enacted we need to walk through history over the last 40 years and keep our mind's eye on the bigger picture. You should first realize that prior to 1960 most American households owned a dividend-paying Whole Life insurance policy as one of the best methods to save money, besides the conventional



savings account at a commercial bank, or in bonds. A Whole Life policy was well known and understood by the average American. It had taken them safely through the Great Depression at a time when Wall Street and so many of the country's banks had failed. To that generation a Whole Life policy was as safe as *cash under the mattress*. But something dramatic happened in the 1970s that changed all of that and brought economic ramifications both domestically and globally. In 1971 President Richard Nixon<sup>2</sup> closed the gold window internationally and shocked the world. This one act unlinked the dollar from the precious metals, finally ending the last remnants of the classical gold standard. Shortly thereafter, with no restraints to the printing presses, a torrent of inflation was unleashed upon the world.

The results began to be felt in our pocket books before we knew it, but our full understanding of how it all came about and the more severe ramifications yet to come were still in the future. Few could have foreseen the emboldened powers of the Federal Reserve we see today or government's increasing role over the entire economy. Or even what inflation really is! Most Americans only witnessed the rising prices on everything including stocks and we took note of that. Now with the stock market promising higher rates of returns, Americans moved away from traditional savings plans that now seemed slow and boring and plunged into the speculation markets. With the emergence of the mutual fund, the transition was made easier. Real estate, which had a tax-sheltering component at the time, surged to record highs. By the end of the 1970s and early eighties the correction came with full force and interest rates skyrocketed to 23% on commercial bank loans! Suddenly there was panic on the streets.

### **The Tax Reform Act of 1986**

The Tax Reform Act of 1986<sup>3</sup>, which came during Reagan's term in office, also had enormous ramifications for Americans coming on the heels of an inflationary decade. This tax law was specifically targeted to increase corporate taxes, increase capital gains taxes, and generally broaden the Tax Code; its enactment successfully brought billions into the

coffers of the U.S. Treasury, but in so doing virtually eliminated all known tax shelters for the wealthy. Tax havens at the time were tied to real estate in the form of limited liability corporations. The passing of the Tax Reform Act of 1986 set off a nationwide collapse of the commercial and residential real estate markets and a wave of business and personal bankruptcies followed. In fact, it was the worst real estate collapse since the Great Depression. Hundreds of shopping centers literally stopped construction in midstream and were virtually abandoned. Large office buildings and office complexes in major cities lay dormant and empty as white elephants. It remained this way for several years and people wondered if this was the end to all future real estate investments. These dramatic economic events eventually tipped the scales of the prevailing panicked mood of Americans and set off the great stock market crash of October 19, 1987 famously known as "*Black Monday*," when \$500 billion was lost in one day. There was a sense that things were getting out of control.

Meanwhile, the wealthy having been thrown out of their tax sanctuaries began pressing their tax attorneys and advisors for a new tax refuge and the answer soon came back with urgency earmarked with these general instructions—"*write one check — a big check— and drop it into a Single-Premium Whole Life Insurance Policy!*" These directives seem almost strange when all we hear today is that Whole Life is the worst place to put your money. Nevertheless, these were the guidelines coming from the top tax advisors in the nation who were on the payroll of America's richest families. The advice was quickly heeded. But why were the wealthy advised to do this? The answer is simply this—*the tax benefits and the control over one's money offered to policy owners of a Whole Life contract*. When you look around and discover that nothing else offers such benefits, why not "overfund" one of these policies with the entirety of your wealth? As it came to pass the wealthy took immediate action and the money poured into these policies soon got the attention of the regulators who noticed that they were being used, not merely as insurance policies, but also as a way to shield wealth from taxes. Consequently, in June of 1988 Congress passed the Technical and

Miscellaneous Revenue Act (TAMRA) to specifically curb these actions, and the single-premium policy was declared a Modified Endowment Contract (MEC).<sup>4</sup>

Although all of the policies issued prior to this date were grandfathered in (subject to material changes in the policy), and are not subject to the new tax rules, single-premium Whole Life policies written after this date are now all MEC policies. This is a designation that remains to this day.

**The following tax rules apply to Modified Endowment Contracts and are listed here as only general guidelines:**

1. Distributions will switch from a First In First Out (FIFO) basis to a Last In Last Out (LIFO) basis. This means that withdrawals will require the policy owner to withdraw taxable gain before withdrawing un-taxable basis.
2. Policy loans will be realized as ordinary income to the policy owner and could be subject to income taxes in the year the loan is made.
3. Distributions (either withdrawals or loans) that go beyond the policy basis will be subject to a 10% penalty tax for policy owners under the age of 59.5. In effect; a MEC insurance policy is now taxed much like an annuity or any other government qualified plan.

**The Corridor Rule:** Although a single big check can no longer be made to “overfund” a policy and completely pay it up without it being classified a MEC, the IRS’s so-called 7-pay test that came along in conjunction with TAMRA does allow you (*provided you follow the rules*) to make seven individual checks, one each year, and virtually accomplish the same thing without it being a MEC. It just takes longer.

In a general sense, the corridor rule states that in order for any life insurance policy to avoid being classified as a MEC, there must be a “*corridor*” of difference in dollar value between the death benefit and the cash value of the policy. What is being eliminated or discouraged are premium payments that would make the cash value of the policy higher at any point in the first seven years, compared to a hypothetical policy of

comparable death benefit that would be fully paid-up after seven equal premium payments.

**Material Changes:** Important to all of this is the fact that once an insurance contract becomes a MEC, the status is irrevocable. Of even more noteworthy importance is that the 7-pay test described above must be satisfied not just at the inception of a new policy, but also anytime during the life of the policy if it undergoes a “*material change*.” The legislative history of a MEC defines material changes as those having to do with any increases in future benefits caused by a policy exchange, such as a 1035 exchange and a conversion from term to permanent insurance as specific examples. Increases in the death benefit or the addition of riders can have a material change on a policy. If a policy undergoes a material change, a new 7-pay premium is calculated using the age of the insured and the policy’s death benefit at the time of the material change to determine if it crosses to MEC status.

As you can see, some of this can get pretty technical and just reading the actual language in the tax code itself is difficult for the layman to decipher without the aid of a tax expert. But for those of you who wish to tackle the paragraphs in question they are found in the modified endowment contract rules Section 7702A. Ironically, even the tax experts of the *Necessary Premium Task Force of the Society of Actuaries’ Taxation Section* has reported, as recently at 2012, that there are no regulations describing the NPT (the necessary premium test) in the code, “*a circumstance not unusual where sections 7702 and 7702A are concerned.*”<sup>5</sup> Yet in a private letter ruling by the IRS, dated June 14, 2011 and released to the public on September 16, 2011, the Service not only clarified the ruling but also reached a conclusion that was consistent and logical with the original authors of the TAMRA rules. This most recent IRS ruling has actually helped insurance carriers track the MEC technicalities with even greater precision.

## CONCLUSION

The good news is that today each policy that is issued will have its own MEC premium limit already

calculated by the insurance carrier, so that if an owner attempts to make a premium payment that would result in the reclassification of the policy as a MEC, the company can hold the money temporarily and warn the owner before it actually happens. This is a huge advantage and relief for policy owners who have no idea that these IRS guidelines exist, especially when practicing IBC, or for those wishing to do so.

Additionally, now with the *Authorized IBC Practitioner's Program* and the Practitioner Finder at [Infinitebanking.org](http://Infinitebanking.org), policy owners can have a double safeguard by being able to consult with a trained IBC financial professional beforehand, or in a case where a premium payment would trigger the MEC status and the company is requesting authorization to proceed or send a refund. For these and other important reasons an Authorized IBC Practitioner should always be consulted for implementing IBC policies.

Finally, we should not lose sight of what is really going on here. The IRS has stepped in here at a crucial time in history for a reason and I have devoted this article to making that reason clear. The notion that Whole Life insurance is the "worst place to put your money" should now appear ridiculous. Prudent and middle-class Americans should take careful note that as long as you stay within the rules, the strategy of the wealthy is still available to you, your household, or your business.

Naturally, each individual's circumstances are unique, requiring a specialized financial plan. No decision should be made without input from a qualified professional. Yet the reader's choices should take into account the material I have presented in this article. In an economic environment filled with chronic inflation, onerous taxation, and erratic market volatility such as we have today, the decision to move your wealth from the volatile Wall Street/commercial bank nexus into the conservative, safe, insurance sector via a specially designed IBC policy carries tremendous advantages.

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## How GDP Metrics Distort Our View of the Economy

MAY 15, 2015 — Christopher P. Casey

GDP purports to measure economic activity while largely divorcing itself from the quality, profitability, depth, breadth, improvement, advancement, and rationalization of goods and services provided.

For example, even if a ship — built at great expense — cruised without passengers, fished without success, or ferried without cargo; it nevertheless contributed to GDP. Profitable for investors or stranded in the sand; it added to GDP. Plying the seas or rusting into an orange honeycomb shell; the nation's GDP grew. <sup>[1]</sup>

Stated alternatively, GDP fails to accurately assess the value of goods and services provided or estimate a society's standard of living. It is a ruler with irregular hash marks and a clock with erratic ticks.

As proof, observe this absurdity: in 1990, Soviet GDP equaled half of US GDP, according to the 1991 *CIA Factbook*. No one visiting the Soviet Union in 1990 would believe their economy came close to 50 percent of the quality and quantity of the goods and services produced in America. GDP-defined production may have been strong, but laying roads to nowhere, smelting unusable steel, and baking barely edible breads stretches the definition of "production."

And this describes the goods which were actually produced. There is no accounting for the opportunity cost of forfeited essential goods and services.

How can this be? Why does GDP poorly reflect economic size and vitality? The blame largely resides with three fallacious concepts embedded within GDP "measurements":

1. intermediate goods (e.g., steel) must be eliminated to avoid "double counting";
2. government expenditures consist of viable economic activities; and
3. imports should be netted against exports.

### **The Overstatement of Consumption**

Which transactions should be included within GDP? Since most products consist of other products, GDP architects attempt to avoid "double counting" transactions by largely including only final goods and services produced. By their methods, the production of a car is counted (as an increase in inventory), but the metal, rubber, and plastic purchased in its creation is not. But the rules behind what makes a transaction "final" are arbitrary. The logic could just as easily justify including the sale of an automobile to a consumer and disregarding its previous production. In addition, any "final" transaction during a given time period does not necessarily include intermediate goods produced in that same time period: metal, rubber, and plastic purchased today will likely be for a different car produced or sold in a different (future) time period.

Regardless as to the arbitrary nature of determining final sales and notwithstanding the problem of temporally matching intermediate goods with their associated final sales, the exclusion of certain "intermediate" transactions simply excludes massive volumes of economic activity. Thus, GDP understates the economy as a whole while grossly overstating its consumption component relative to business investment. A better measure of overall production was created in 2014 when the US Commerce Department began publishing Gross Output which incorporates intermediate transactions. Using Gross Output, the commonly cited statistic of consumption accounting

for 70 percent of all economic activity quickly falls to a mere 40 percent.

### **The Treatment of Government Expenditures as Productive**

If GDP purports to measure economic activity which *benefits* society, the inclusion of government expenditures is dubious. GDP "produced" in the Soviet Union is no different than GDP "produced" by any government — the difference is but one of scale. All government spending is to some degree malinvestment, for as Murray Rothbard noted:

Spending only measures value of output in the private economy because that spending is voluntary for services rendered. In government, the situation is entirely different ... its spending has no necessary relation to the services that it might be providing to the private sector. There is no way, in fact, to gauge these services.

The absence of voluntary action renders prices impotent, and without true price discovery, benefits cannot be ascertained. This does not mean all goods and services provided by government would cease to exist; rather, some production (e.g., hospitals, schools, roads, etc.) would revert to the private sector. To the extent government expenditures for goods and services would be produced by the free market, the true government contribution to GDP may be positive but overstated (it currently approximates 20 percent of US GDP). A more accurate depiction of economic activity would reduce if not eliminate the contribution of government expenditures. Or perhaps, as Rothbard argued, the higher of government receipts or expenditures should actually be deducted from GDP since "all government spending is a clear deprecation upon, rather than an addition" to the economy.

### **The Problems of Subtracting Imports from Exports**

As Robert Murphy has noted several times, the netting of imports against exports in determining GDP seriously understates the contribution of trade to overall economic activity. To wit, an economy which exports \$1 and imports \$1 will have the same



GDP contribution (zero) as one which exports \$100 billion and imports \$100 billion. Obviously, the latter economy would be far worse off with the sudden cessation of trade.

A fixture of GDP is the mercantilist mentality of treating exports positively and imports negatively. Why are exports additive to GDP while imports are deductive? If the goal of GDP is to measure the goods and services provided to people within a geographic region, *imports* — not exports — are the benefit. Exports are but payment for imports. The problem and confusion arises because the GDP calculation unrealistically excludes other forms of payment: it should make a difference if imports are funded with increasing debt levels or if funds are accumulated from previous years of compensated exports. If China converted over \$1 trillion in US debt instruments into imports of American goods and services, its people benefit today, but under GDP accounting, the negative impact of imports would offset greater consumption and/or government spending (the increase in GDP was previously realized in the years during which exports created a trade surplus).

### **GDP is Designed to Advance the Keynesian Agenda**

Simon Kuznets (1901–1985) revolutionized econometrics and standardized measurements of GDP. After honing his statistical craft in Bolshevik Russia, he moved to the United States where he continued his research which eventually culminated in his 1941 book, *National Income and Its Composition, 1919–1938*. While not a Keynesian per se, the nature and timing of his research fueled the Keynesian revolution since central planning requires economic statistics. As Murray Rothbard noted:

Statistics are the eyes and ears of the bureaucrat, the politician, the socialistic reformer. Only by statistics can they know, or at least have any idea about, what is going on in the economy. Only by statistics can they find out ... who “needs” what throughout the economy, and how much federal money should be channeled in what directions.

GDP's faulty theoretical underpinnings and politically

motivated acceptance distort the performance and nature of an economy while failing to satisfactorily estimate a society's standard of living. In fact, Kuznets partially understood this. In his very first report to the US Congress in 1934, Kuznets said “the welfare of a nation [can] scarcely be inferred from a measure of national income.” Yet the blind usage of GDP persists. That its permanence and persistence only serves the Keynesian policies of greater consumer spending, increased government expenditures, and larger exports through currency debasement should not be considered coincidental. Unfortunately, the resulting economic stagnation, debt accumulation, and price inflation are as inevitable as they are predictable.

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[1] Starting in December of 1991, the Bureau of Economic Analysis (BEA) of the US Department of Commerce emphasized gross domestic product (GDP) over that of gross national product (GNP) as a measurement of production within the US. The difference between GNP and GDP lies in the treatment of income from foreign sources: GNP measures the value of goods and services produced by US nationals, while GDP measures the value of goods and services produced within the boundaries of the US, regardless as to the nationality of ownership. For purposes of this article, the differences between each measurement are unimportant and therefore “GDP” is utilized synonymously with GNP.

*Comment by R. Nelson Nash – In this article Christopher P. Casey has demonstrated a sterling example of what I was addressing in my previous article entitled NOISE. Please take note that Christopher correctly classifies what GDP really is. GDP is Designed to Advance the Keynesian Agenda. Their agenda is readily apparent in all that our government does. Learn how to recognize it as NOISE and govern your life accordingly.*

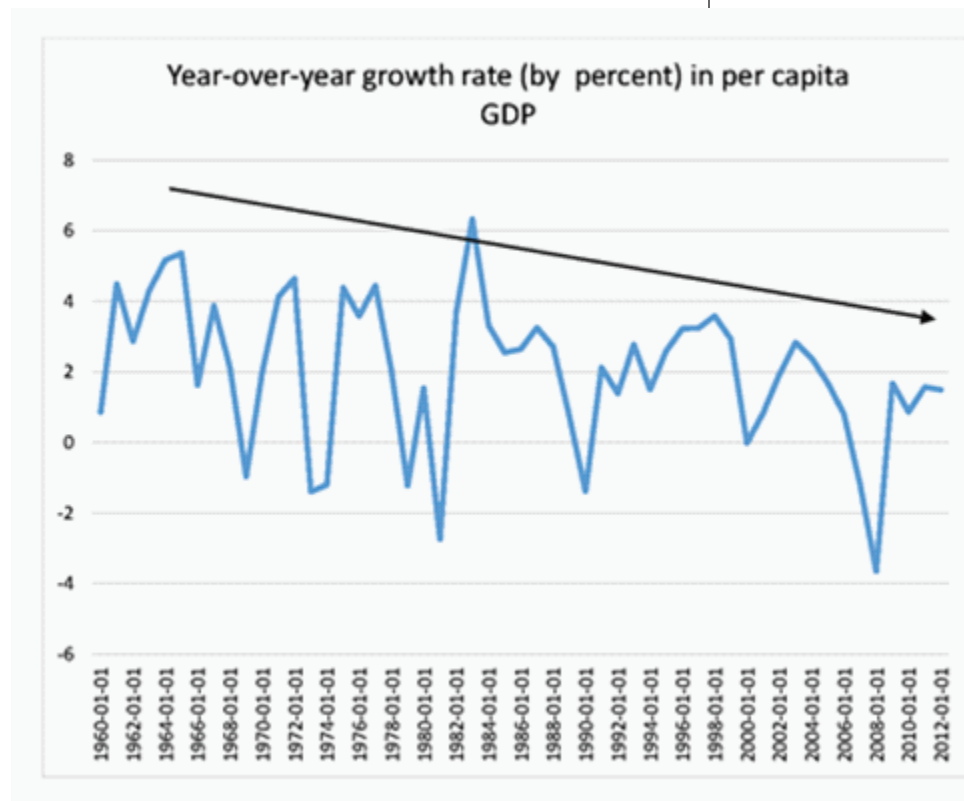


## Government Regulation and Economic Stagnation

MAY 19, 2015 — Peter St. Onge

One of the more interesting economic debates in the past couple of decades is why the economy is slowing down.

Since 2000, per capita GDP growth in the US has been 0.9 percent per year, compared to 2.3 percent per year in the previous fifty years. This is a big difference: at 2.3 percent growth we double in wealth every generation. At 0.9 percent it takes us close to a century to double. So why the slowdown?



Even fresh young blogger Ben Bernanke's in on the game with his new blog, while Tyler Cowen has written a minibook on the subject, called *The Great Stagnation*.

One thing that most economists, left and right, agree on is that it takes investment to make an economy more productive. So, naturally, economists focus on investment rates. Which have indeed come down,

across most of the industrial world, mirroring the US numbers above.

### Misplaced Fears of Hoarding and Deflation

To Keynesians, any problem is a demand problem — it's their one hammer to solve them all. So the position of Bernanke, Summers, and the ever-present Krugman is, with minor adjustments, that there's too much savings sloshing around in this world instead of being invested. That savings acts as a deadweight on productivity improvements.

“Savings” for both Keynesians and Austrians means the money not spent on consumption. But Keynesians miss that you can do two very different things with

savings: you can hoard it, or you can invest it. Hoarding means you secret it away, which terrifies Keynesians. Investing means you indeed spend the money on some productive good or service.

When the Keynesians complain about dead money, they mean there's too much *hoarding*. But this completely misunderstands how hoarded savings affect investment. A dollar that's unspent is equivalent to temporarily removing that dollar from existence. You may as well have buried it. This means that all remaining dollars increase in value.

To illustrate, let's say you've got \$100 billion running around the economy, and you burn \$25 billion. What happens? The remaining \$75 billion do the *work* of that original \$100. Meaning each dollar rises in value by 33 percent. Now, if instead of burning that money you hoard it instead, the impact is the same: the remaining dollars in circulation rise in value. You get deflation. You still get your \$100 billion spent, it's just being accomplished with fewer pieces of paper.

So hoarding merely transfers purchasing power to dollars still in circulation. Meaning that Keynesian bugbear of “savings gluts” have no impact on investment. Because hoarding cancels itself by purchasing-power adjustment.

**The Role of Regulation**

So what is causing the slowdown? Cowen, who is among the few mainstream economists actually trained in Austrian economics, gets closer to what I think is the true cause, when he looks at supply-side problems. Still, I think he's missing the obvious. Cowen claims that we have plucked the low-hanging fruit — excess land on the frontier, basic education of kids — and now we just have to suck it up and get used to the new normal.

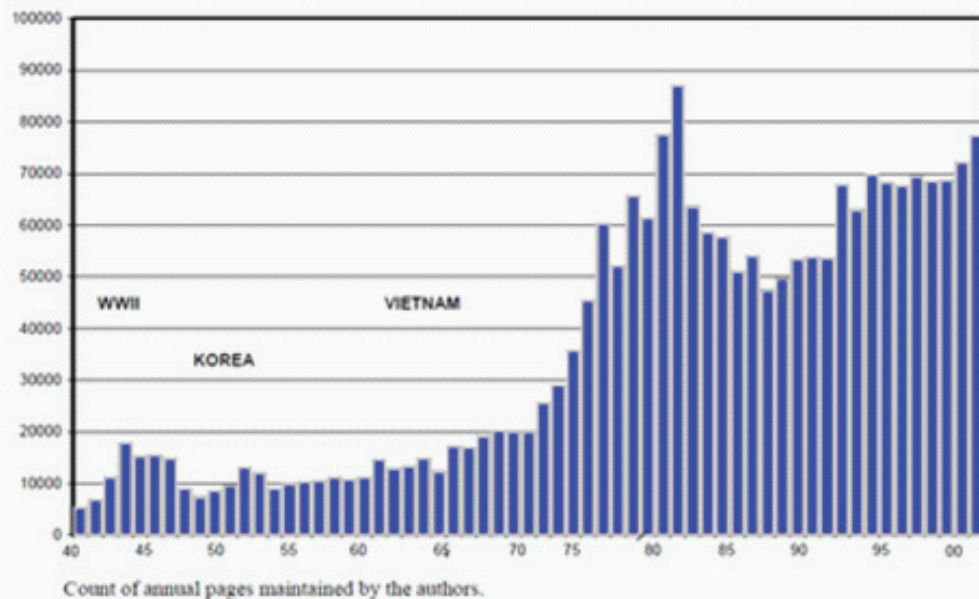
The problem here is the timing. The frontier “closed” over a century ago, actually before the greatest leap in US economic growth (the “Gilded Age”). Literacy rates, too, leveled off a century too early. I suspect a statistical analysis would say that, by sheer coincidence, the exact opposite occurred: economic growth soared once the frontier closed and literacy rates leveled off.

So what is the cause of the slowdown? Well, we need something that actually occurred in the right timeframe. For me, the problem is pretty obvious: creeping regulation. It's hard to quantify the impact of regulations: how do we measure a regulation against, say, selling street food or braiding hair without a license? So we need to use proxies.

Here's a chart of the annual number of pages in the

Federal Register. This is a proxy for how many rules come up, which is in turn a proxy for the regulatory burden. These took a huge jump starting in the 1970s, briefly interrupted by Carter's deregulation drive, then resumed their march upward from the 1980s.

Figure 6: Federal Register pages, 1940-2001



Comparing the productivity numbers to regulatory pages matches up pretty well: pre-1971 real GDP ran at 2.4 percent. Since 1971, it's run at 1.8 percent. Still, the big drop-off since 2001 isn't simply explained by pages — there was no big jump in 2000 in Federal Register pages.

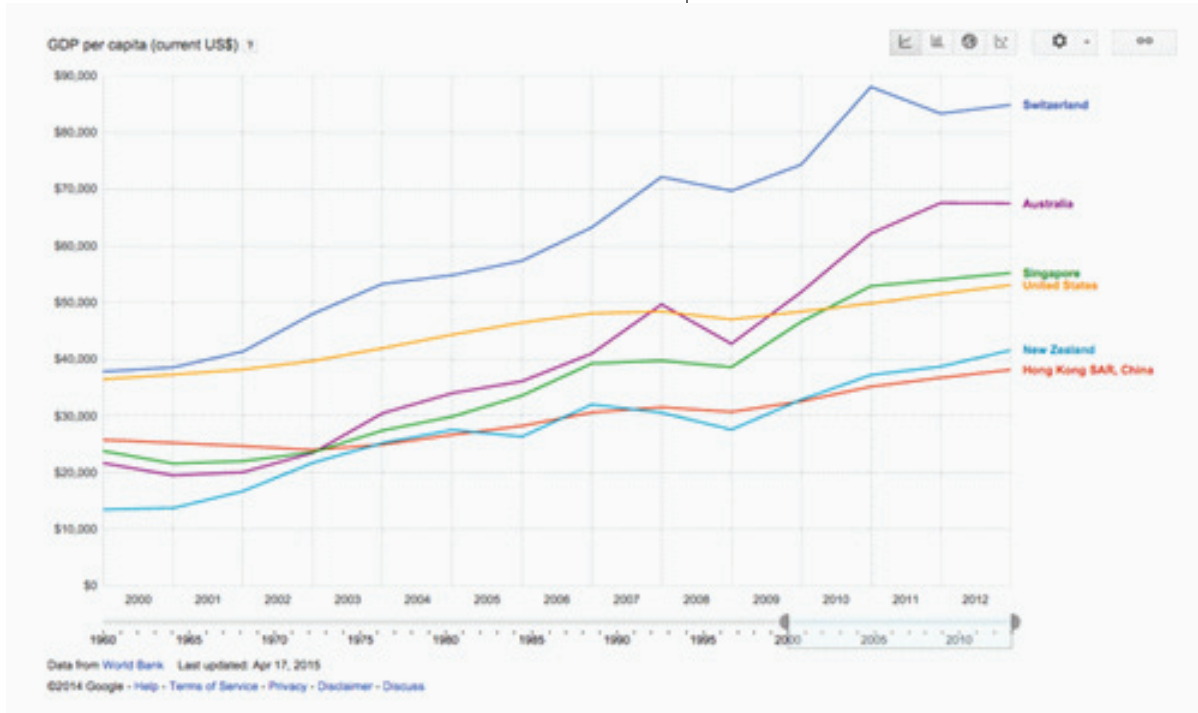
So the timing's not perfect, but there are other comparisons we should make as well. Specifically, we need to look at other countries because our view of the causes of the slowdown will change depending on whether or not all countries are experiencing a slowdown, or just certain countries.

In both the Summers-Bernanke-Krugman savings glut theory and in the Cowen low-hanging-fruit explanation, they are proposing something that should be affecting at least all rich countries. In the regulations explanation, we'd expect different harm depending on the regulatory zeal of particular

countries.

The data supports the country specific — regulatory — explanation, simply because there are still rich countries that are growing. The slow-down's not affecting everybody. Here's a chart of performance during the so-called stagnation of the top five countries in economic freedom, ranked by Heritage's 2015 Index of Economic Freedom:

If, indeed, it's this relatively business-friendly attitude that lets some countries escape the supposed Great Stagnation, we have yet another reason to doubt the policy prescriptions of the Summers-Bernanke-Krugman position. Rather than the expanded government role in lending, or Cowen's pessimism, the solution is clear: put as much effort into removing regulatory and tax deadweight as we put into hatching new burdens.



Most interesting are the three countries that actually passed the US during the supposedly world-wide stagnation: Singapore, Australia, and Switzerland. Singapore only passed the US in per capita income in 2011, Australia in 2010, and even Switzerland was at the same income as the US in 2000 — and now it's nearly 50 percent richer.

So what's so special about these countries? In general, there's almost nothing that, say, Australia, Singapore, and Switzerland have in common — language, size of country, resources, structure of economy, type of government. What they do have in common, though, is low regulatory burden, limited governments, rule of law. In fact, both Switzerland and Singapore are regularly threatened by the US as tax havens.

*Comment by R. Nelson Nash – The hidden agenda of Keynesians is that they do not want you to “control the banking function” in life at the “you-and-me level.” They want it to be done through central power of some sort that complies with their theories. Hence, they use derogatory terms that infer “hoarding.” When you use Dividend-paying Whole Life Insurance as your Warehouse of Wealth (really your medium of exchange), Keynesians don't recognize that the money is always at work at all times.*

*On the other hand, they may know it -- but this fact doesn't meet the goals of their agenda. I suspicion that this thought is closer to the truth.*

**Nelson's Favorite Quotes**

*Knowledge has to be improved, challenged, and increased constantly, or it vanishes.*—Peter Drucker

*Teach self-denial and make its practice pleasure, and you can create for the world a destiny more sublime than ever issued from the brain of the wildest dreamer.* – Sir Walter Scott

*Ideas will be the major source of new wealth.*  
-- Brian Tracy

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

*I Know What To Do, So Why Don't I Do It?*  
by Nick Hall, PhD

*A Short History Of Man – Progress and Decline*  
by Hans-Hermann Hoppe

*Inclined to Liberty* by Louis E. Carabini

**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:

- [Scott Plamondon - Mission Viejo, CA](#)
- [Robert Schilly - Festus, MO](#)
- [Braden Galloway - Anchorage, AK](#)
- [William Hassler - Sarasota, FL](#)
- [Vance Lowe - Arlington, TX](#)
- [Richard Gailey - Maitland, FL](#)
- [Vivien Adao - Burbank, CA](#)
- [John Moriarty - Sunset Hills, MO](#)
- [Mike Everett - Baldwin City, KS](#)
- [Thomas O'Connell - Parsippany, NJ](#)

*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.

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