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Gary North Is Wrong About Whole Life Insurance and the Infinite Banking Concept

by Ryan Griggs

Gary North, Ph.D. (History, University of California — Riverside) is an economist, social commentator, and author. His reputation is controversial — some love him, some hate him. Some both love and hate him, depending on the subject of a given North article. In this post, I'll attempt to set love and hate aside and focus on the validity of North's analysis in his 2009 article on whole life insurance and the Infinite Banking Concept.

Throughout, Dr. North is plainly, painfully, loudly wrong. Jolting as the frequency and magnitude of the errors are, a line-by-line approach is necessary to deconstruct North's polemic against sound finance.

From the top:

> *All life insurance is built on deliberate deception. The industry sells death insurance. It changed the name to life insurance because "death" doesn't sell.*

Insurance is a promise to pay in the event of loss. You insure assets. If the asset is lost, insurance financially compensates you. Because the risk of loss is relatively small for many assets while the cost of the loss (the sum of the future stream of income from the asset, discounted to the present) is relatively high, asset owners pool their financial resources in a concentrated entity so that if misfortune were to strike one asset owner out of the group, he or she could receive a relatively large payout. *Your life* is your *greatest* asset — financially speaking — because *you* will generate more income for yourself than any other asset will. This *must* be the case, because other assets are *useless* to you without your ownership of and involvement with them.

Life insurance is not death insurance, because death is not an asset.

> *Fire insurance insures against losses from fire. It is called fire insurance. The same is true of flood insurance, collision insurance, burglary insurance. But not life insurance. Also, not health insurance. It is sickness insurance.*
>
> *Marketing considerations govern the sale of death insurance. Never forget this.*

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Fire, flood, collision, and burglary insurance are colloquial terms for *property insurance*. The risk of loss for some forms of property are greatest under specific circumstances, for example, when it's *on fire*. So to refer to the particular subset of property insurance that compensates the property owner in the event of loss of property due to fire, one might call such a policy "fire insurance." If such a term is a product of "marketing considerations," then it is because such terminology efficiently communicates the nature of the coverage of a specific type of *property* (remember: assets) insurance. What would North have us say instead? "Property insurance that pays out in the event of fire?"

> *Second, the worst form of death insurance for buyers is whole life — the lowest payment to survivors per premium dollar. Term insurance is by far the best. But it provides the least income to death insurance companies.*

Compared to *term* insurance, whole life does not pay out the lowest payment to survivors per premium dollar if the payout occurs one minute after the given *term*. In fact, supposing an individual passes away closer to natural mortality (the statistically more likely outcome) and *after* the term, the whole life payout is literally *infinitely greater* than the term payout ($0 term payout / >$0 whole life payout = infinity).

The idea that term policies *necessarily* provide the least income to life insurance companies is just wrong. More than 98% of term life policies lapse. This means that only 1–2% of term policies will actually pay a death benefit. In the other 98% of cases, the policy owner will outlive the term. This means that for those 98% of term policies, the company collected premium and paid out nothing. In contrast, a (legitimate) whole life policy (I'll elaborate below), *will definitely pay out*. Now, whether whole life benefits the company more than term depends on other factors (like pricing), but the claim that term pays less to the company than whole life is not supported by the (erroneous) claim that whole life pays out relatively less to the client. Nor is it obvious which policy type would pay the company better when we compare the two on an (honest) apples-to-apples basis.

Also, some life insurance companies are *mutual* companies. This means that the companies are owned by the policy owners, like in a co-op. This also means that policy-owners receive dividends, which you can think of as participation in the profit of the company. You might ask yourself, "would I prefer to own a profitable company, or an unprofitable company?" If you follow North's anti-profit animus, you might choose the latter. But if you're like the rest of us, you might dismiss this lazy lapse into the anti-capitalist mindset and prefer the former.

> *They label whole life as "permanent insurance." An annual renewable term policy is renewable by law. It is permanent if you pay your premiums. The companies use deception to sell a much poorer product from the buyer's point of view.*

North is technically correct that term insurance will renew year-to-year. Conveniently, he leaves out the fact that while the policy itself will remain in-force (renewed), *the premiums will rise*. Those higher premiums do not purchase additional death benefit. Put differently: sure, you can treat term life insurance as "permanent" if you're willing and able to pay premiums that rise by double-digit percentages every year, particularly in your middle ages and beyond.

In contrast, whole life insurance premiums are *level*. This means they are contractually guaranteed to not increase, even as you approach the time of payout, even if you get sick, and even if you become disabled. You might say North is using "deception" when he illegitimately compares annually renewable term with its high-rising premiums post-term to level-premium whole life.

> *Third, the whole life policy's insurance coverage shrinks over time. As you grow older, the company agrees to pay less to you above your own money in the policy. At age 65, your widow gets paid if you die. Not a dime of this is insurance. It's all your own money. She gets her own money if you die. Some deal!*

One wonders what sort of "whole life" policies North encountered in his considerable experience. No whole life policy I'm aware of has a death benefit equal to the individual's cumulative premiums at age 65—or any year for that matter. Maybe North has confused whole life with another type of "permanent" insurance called universal life (UL), an unfortunate, relatively newer product (created in the 1980s; whole life was created in the mid-1600s) that can "implode" on the owner in one's middle age. That's too bad if he is. Imagine a technology writer who confuses a PC with a Mac and you have a good idea of an "economist" who confuses universal life with whole life. It's a basic, categorical difference. Put differently: all whole life insurance is permanent insurance, but not all permanent insurance is whole life insurance. Best not to throw the whole life baby out with the permanent insurance bathwater just for the sake of a lack of critical thinking.

> *The salesmen do not show the buyer a chart of how the insurance coverage declines to zero at age 65. The buyer might figure out what is really going on.*

Again, this is a product of North's regrettable refusal to distinguish between types of permanent insurance.

> *Whole life insurance is bought by economically ignorant people. The industry profits from buyers' ignorance. It charges huge commissions, which are paid to salesmen. This is why corrupt salesmen over time cease to listen to their consciences about deceiving the ignorant. Whole life policies offer low coverage for young wives who need at least $250,000 of coverage. Few young families can afford to buy whole life policies this large.*

Whole life insurance (by the way—have you noticed that North has resumed calling this particular type of asset insurance by it's correct name, i.e. *life* insurance?) is purchased by economically savvy people who understand the power of tax-favored, compounding, guaranteed growth in a piece of private property over which they have contractual authority. Unfortunately, the benefits of whole life are relatively unknown to most people (admittedly, even to most financial agents), so the ignorance factor actually works *against* those of use who understand it—and especially those who understand the Infinite Banking Concept.

$250,000 worth of coverage actually isn't very expensive. Additional death benefit can be added to whole life insurance at relatively little cost too, if needed. And while it is true that you can buy more death benefit per premium dollar *for a limited term*, it's also true that if you begin to accumulate capital — even a small amount — at a young age inside a properly designed dividend-paying whole life policy, it can yield impressive cash-flow in your later years *after that limited term*.

> *A whole life policy is not indexed for price inflation. Your savings portion gets destroyed by inflation.*

This fly-by-night claim implies that indexing is the only way to hedge against inflation. What if I told you that with a properly designed dividend-paying whole life policy, you could access more and more money from the insurance company to use for your own purposes even while your premium payments remained fixed? *Increasing* benefits with fixed costs is its own hedge against inflation. I imagine that North's misunderstanding here is rooted in a deeper misunderstanding of the poorly-labelled "savings portion." That "savings portion" is actually *equity*. Would you call the equity in your home the "savings portion" of your mortgage? Probably not, but that's effectively what North is doing here with what is called the *cash value* of whole life insurance. Put differently, in an environment of rising prices, you should want benefits that rise in value over time and costs that fall.

Curiously, North suggests exactly the opposite. He would have his readers pay in a higher quantity of depreciating dollars for the same fixed benefit. This means followers of North's advice would have to work doubly hard to eventually receive the same benefit — in the first instance to earn more dollars, and in the second instance to compensate for the falling value of each of those dollars.

I call it a sucker's product. You may want to call it something else.

Nelson Nash refers to properly-designed whole life as "a personal monetary system with a death benefit thrown on for good measure." My mentor James Neathery calls it "the ideal primary residence for your capital." The optimal "warehouse of wealth," the "best place to store cash," and the "ideal entity to protect, build, and use capital" also come to mind. All of these are better, more accurate conceptualizations than North's blunt refrain.

You can buy term policies on-line at hundreds of sites. Buy the cheapest A-rated company you can find, either annual renewable term (permanent) or level-term (a physical is required after 10 or 20 years — not permanent, but cheap).

Is this life insurance advice? I wonder if North is licensed to give advice on how to buy life insurance. I'm no advocate of state-mandated licensing, but given the option, would you see a licensed or an unlicensed physician to treat cancer? Would you prefer a licensed or an unlicensed dentist to fill your cavities? Furthermore, who would you rather interact with in the event of loss of a loved one, a website, or a person with whom you've formed a relationship? It's curious that North the "economist" suggests trusting ratings agencies too. This piece was written in 2009 — after the financial crisis. Was North aware of the role the rating agencies played in that crisis? Readers might look instead to whether a given company is a mutual company (as opposed to a *stock* company), and for how many consecutive years that company has paid a dividend.

North persists though, citing another unlicensed, non-financial professional: the television and radio celebrity Dave Ramsey.

If you don't want to spend money, read this article by Dave Ramsey. He gets to the heart of the matter.

[Ramsey:] Sadly, over 70% of the life insurance policies sold today are cash value policies. **A cash value policy is an insurance product that packages insurance and savings together.** *Do not invest money in life insurance; the returns are horrible.*

Let's cover some finance 101. An *investment* involves *forfeiture* of the use of funds for a period of time. In order to access *invested* funds, some or all of the investment must be *liquidated* (sold off).

Cash value life insurance policies have contractual provisions that give the owner *the right* to access funds from the insurance company at the owner's discretion *while the policy values continue to grow*. I don't know whether cash value life insurance (whole life) is the exact *opposite* of an investment, but it certainly isn't one, nor do people who understand it pretend that it is.

We won't get into the fact that Dave Ramsey's main suggestion for building capital is to do so through mutual funds acquired with money via tax-qualified plans like a 401(k), or how in the financial crisis many people's tax-qualified plans took a veritable kick in the teeth to the tune of 30–50% losses, or how in order to get your hands on money you lock up in those plans before age 59.5 you must pay Uncle Sam an additional 10% penalty for the privilege. These are details for another time.

Hilariously, marketing and selective sales-hater North recites the following tagline, which is itself only a couple-decades-old marketing slogan.

*His [Ramsey's] conclusion is my conclusion: "Don't do cash value insurance! **Buy term and invest the difference**."*

Note what is missing in the "buy term and invest the difference" mantra: *capital formation*. Purchasing term means an additional expense — no equity building. Investing the difference (between what you'd pay in whole life premiums versus term premiums) means additional separation from the use and access to funds — again, no equity building. "Buy term and invest the difference" is the Siren song of the financial mega-institutions whose bread and butter is *your* assets under *their* management. Buyer (and reader) beware.

> *I regard anyone who sells whole life policies as morally corrupt. He knows they are losing propositions, but he will not sell term policies that would adequately protect widows and their children in their time of terrible loss. The whole life policies are so very profitable. "Let other men's widows do without. My widow will do just fine."*

I regard anyone who calls life insurance death insurance, who confuses universal life with whole life, and whose financial philosophy revolves around segregating individuals from control and use of their money as financially ignorant at best and arrogantly insidious at worst. In the very least, people who talk about life insurance should understand the economic legitimacy of risk-pooling, the validity of the law of large numbers and actuarial science, and the morality of familial inter-generational planning.

Murray Rothbard said:

> *It is no crime to be ignorant of economics, which is, after all, a specialized discipline and one that most people consider to be a 'dismal science.' But it is totally irresponsible to have a loud and vociferous opinion on economic subjects while remaining in this state of ignorance.*

One could replace "economics" with "life insurance" and the general meaning of Rothbard's claim would ring true with equal clarity. Back to North…

> *The reason whole life policies have such high commissions ("loads") is that companies know that the salesman's time is very valuable. If he can get in the door to make a sales pitch, the company wants him to sell whole life policies. The company pays accordingly.*

The payouts on products between which North fails to distinguish like universal, variable universal, and equity-indexed universal life insurance all typically pay *higher* commissions than do whole life policies. Of course, the particular level of commission is subject to competition and voluntary choice. If one were to read North's piece without the frequent digressions into anti-capitalist philosophy, the article would be half as long, and mercifully so.

> *At any time over the past 20 years, had I died, my wife would have received a tax-free check for a million dollars. It is tax-free money because we paid the taxes on the money before she paid the premiums.*
>
> *The money would not have gone into my estate to be taxed. She pays for the policy out of her own personal bank account. The money would have gone straight to her — no estate executor, no tax man.*
>
> *This is the way to buy death insurance. There is no other economically efficient way — from the buyer's point of view.*

All life insurance payouts go income tax-free to beneficiaries. The only difference is that the older owner of whole life insurance who passes nearer to natural mortality—by when North will have dropped his very high-priced term insurance—will leave a much greater sum to the next generation, and will have enjoyed the use of concentrated, guaranteed capital during his lifetime.

The second part of North's piece addresses my specialty: the Infinite Banking Concept. Apparently someone subscribed to North's site (I wonder what the moral status of that transaction is in North's framework), and with impressive politeness invited North to reconsider his rigorously incorrect view of whole life insurance.

> A month ago, one of these self-deluded sellers of deception joined this site. He wrote to me two days ago.
>
> *[The subscriber:] I just subscribed to your website to learn about your views on money. A close friend and client of mine recommended you to me. So I went by faith and paid the $14.95 for the first month. My main reason to join was to find out what you felt about life insurance. Once I read your thoughts and advice I instantly got offended. I am very familiar with Ludwig von Mises and Murry Rothbard's works. I have studied "Human Action" intensely. I'm not an economist nor do I want to be. My profession is*

> *providing life insurance to clients. About 95% of the type of insurance I provide is whole life. What you said about whole life insurance is true, but it's not all like that. I suggest that you do some research about what whole life can actually do for a person in their living years…called a living benefit.*

> He then referred me to websites of some really big-time deceivers. They re-package the lousy product in order to sell to ignorant people with even more money to waste.

> The concept is called "infinite banking." It's also called "become your own banker." It is really "Whole Life for Dummies With More Dollars Than Sense."

Become Your Own Banker by R. Nelson Nash is the single greatest book on finance you can possibly read. North's occasional admonishment that those who understand whole life are self-deluded is puzzling given that we can illustrate our concept in black and white in one 10–16 page document. That means I can show my clients *guaranteed* growth in their capital on paper for every year of their life. Can Dave Ramsey do that with mutual funds?

> *Here's the deal. You buy a high-commission policy. Then,* ***after six years****, the company lets you borrow against it. You pay the company interest — to "yourself," the ads claim.*

This is wrong on three counts. First, the commission per dollar of death benefit on a policy designed for the Infinite Banking Concept (IBC) is *lower* than the commission per dollar of death benefit on a whole life policy with standard design by a large margin. Second, a policy owner can borrow against the value of his policy *within days* of starting the policy. The emboldened "six years" is either a misconception or a lie. Either way, it isn't true. Third, to get a loan — called a *policy loan* — from the company, you *do* pay interest to the company (of which you are part owner). You do not technically pay interest to yourself. Nelson Nash is explicit about that in his book and so is any Nelson Nash Institute *Authorized IBC Practitioner* worth his salt. That North has droned on about deception up to this point in the article is nothing short of comical.

> *If you know what whole life insurance is, there is nothing new here. Any whole life policy lets you do this. Then what's new? Packaging. They sell the same miserable policy to people with more money.*

You can find a way to agree that there's "nothing new" with ordinary, dividend-paying whole life. After all, it's been around for centuries. But the Infinite Banking Concept does presume a very specific policy design. This means that the premiums are structured in a way they otherwise would not be, and this has big implications for the performance of the policy values. That isn't just a change in "packaging."

> *Go to a CPA. Ask him if you can borrow against any tax-deferred retirement plan. You can if you follow IRS guidelines. You can put in the money and borrow when you want it. You pay interest to your plan — not to an insurance company. You are your own banker.*

When we talk about money, it's very important to be precise in our language. What is means to borrow money *from* is categorically different from what it means to borrow money *against*. In the former instance there is a *withdrawal* whereas in the latter there is *collateralization*. Withdrawing interrupts what otherwise may constitute compounding growth (positive percentage increases over consecutive years) whereas collateralization does not. To understand the power of compounding (which North doesn't mention at all) with regard to building wealth and capital, consider reading Rich Man, Poor Man in the *Dow Theory Letters*. Again, we see North inappropriately implying a comparison of things across theoretical categories and using his conclusions to justify his condescending argument.

> This preposterously poor investment plan has been around for 30 years. A critique is provided by two sellers of universal life policies, who complain that the whole life salesmen tell people that the deal is available only to whole life buyers. This cuts the universal life salesmen out of the territory.

They deeply resent it. Read their critique here *[link does not exist since this publication.]*. It's aimed at insurance salesmen, not buyers. They are furious that the whole life agents are raking in the commission money from rich people before universal life salesmen get to them.

[From the UL salesmen:] Their system is designed to be used with only higher income earners! Their prospects must be willing and able to put away large sums of money. Unfortunately, this severely limits the amount of prospects available to you. And, it puts you in direct competition with all the companies and advisors working the more affluent markets.

Again North relies on patently false assertions. The IBC does not require "high income." I started my own IBC policy in college at about $71 per month. I have a client considering a policy where he will pay $30 per month. My own clients range from fixed-income retirees to part-time employed graduate students to real estate investors. Rather than a "severely limited" clientele, I can work with anyone who is open-minded, who is willing and motivated to learn, and who understands the importance of thinking long-term. And frankly, I don't "compete" with companies and advisers servicing affluent clientele, because the IBC is in a whole other league. In fact, the IBC can improve the position of the affluent client who also utilizes the services of other advisers.

That is what infinite banking is all about, from an agent's point of view.

Well, no, it isn't.

This re-packaged hustle is what my subscriber wanted to show me, so that I would understand that whole life can be a very good deal for buyers. He wrote:

[The polite subscriber:] The reason I took the time to write you is not to argue about insurance. I want individuals like you who have a following to be speaking the truth about how people can use life insurance effectively. The Lord requires us to seek knowledge and understanding. I pray you take the time to look up the websites. It will benefit you and your life more than you thought possible. Also, give me a call if you would like to speak further about this subject. I'm always wanting to learn about the truth. I have found some great articles written by you. I think you're doing a great job. Thanks for your time.

I do not like being lectured to by someone I regard as an immoral deceiver of the naive and trusting. When they invoke God's name, this enrages me as few other things do. That this man thinks I want to hear his self-serving views on this high-commission product is simply astounding.

Maybe North wouldn't regard this polite individual as an "immoral deceiver of the naive and trusting" if North understood the subject. Note the recurring lapse into the anti-capitalist mindset with the "self-serving" language. Is North doing something other than serving himself when he sells access to his content for $14.95/month? Are his buyers "naive and trusting" too?

I have studied this subject for 35 years. Yet he wanted to straighten me out. The product is inherently deceptive. It offers high-priced death insurance under cover of savings — a savings product as poor as the death insurance portion.

This *must* be hyperbole. No one who "studies" life insurance for 35 years would consider "death insurance" to be more accurate than "life insurance." Nor would that studious mind consider the (inaccurately labelled) "savings product" aspect of whole life as "poor."

I encouraged him to either quit selling the product or quit my site. I called him what I think he is: immoral.

He sent a letter back saying I was mean and that he would pray for me.

This is the second time I have gotten this response from a Christian seller of whole life policies. The first time was about 25 years ago at a Christian conference. Someone knew of my views on whole

> *life insurance. He said I should talk with an insurance salesman in the room. I did. I told him exactly what I thought of his career choice. He said he would pray for me. As I walked away, I said to my companion: "He spells that p-r-e-y."*

I wonder how many more of his paying customers North actively disdains. This is a curious orientation to one's clientele.

> *I have watched salesmen peddle these products to the ignorant and trusting for 35 years. I believe that the men who sell this product have what the Bible calls **seared consciences**. I believe their quest for income at the expense of the ignorant has blinded them morally. I do not trust a man who sells whole life insurance.*
>
> *I canceled his membership and sent him a refund for one month.*

Finally, some justice. Though you could say that North owed this heroic, polite, former subscriber a month's interest too (ha!).

> *Here is the latest Gallup poll rating of trusted professions. Insurance salesmen rank #5 from the bottom. They are above Congressmen. If the poll had specified "life insurance salesmen," my guess is that they would have been ranked lower than Congressmen, though possibly above used car salesmen.*

Perhaps life insurance agents have a poor reputation because writers who don't understand life insurance publicly bash the product and the people who provide it. Whether the ranking North mentions is cause to conform to his diatribe and ignore his errors is another matter.

> *Parents: please show this article to your teenage children. I have placed it in the public-access portion of my site. Send it to a married daughter. Your son-in-law may have bought a whole life policy. If he dies, you may have your daughter and her children living with you a year later, after the money from the whole life policy is gone.*

Parents, if you show North's article to your children, consider showing them this response too.

Furthermore, consider discussing your situation with someone who is actually in *the industry*. Someone who understands what life insurance is in the first place, who understands the importance of building capital, and who understands the various types of permanent life insurance may offer a more comprehensive perspective than what North provides.

Where's the Inflation? It's in Stocks, Real Estate, and Higher Ed

by Ryan McMaken

In my days before I worked for the Mises Institute, I had a colleague who knew I associated with Austrian school economists. In the wake of the bailouts and quantitative easing that followed the 2008 financial crisis, he'd sometimes crack, "Where's all that inflation you Austrians keep talking about?"

But then, in the very same conversation, he'd remark with dismay on how much housing-price increases had outpaced household income in the region.

He didn't need an answer from me. He'd found some of "that inflation" all on his own.

Price Changes Are Not Homogeneous

These exchanges illustrated some of the blind spots we repeatedly find among economists and pundits who insist there is no inflation, or that there's even deflation. (In this article, I'm talking only about price inflation, and not money-supply inflation.) But whether or not one is experiencing an inflationary economy can vary widely on socio-economic status, location, life stage, and age. For those who need higher education services, housing, health care, and savings for retirement, the current inflationary economy could be problematic indeed.

This isn't to say that price inflation is increasing everywhere. Oil prices are down by nearly half since 2014, for instance, which means lower transportation costs for most of us. Apparel prices have been declining for decades.

Nevertheless, the official measure of inflation —

the Consumer Price Index (CPI) — does show an increase over the past decade. Over the ten years from 2009 to 2018, the CPI value rose 15 percent. It has risen 50 percent in the twenty years since 1999.

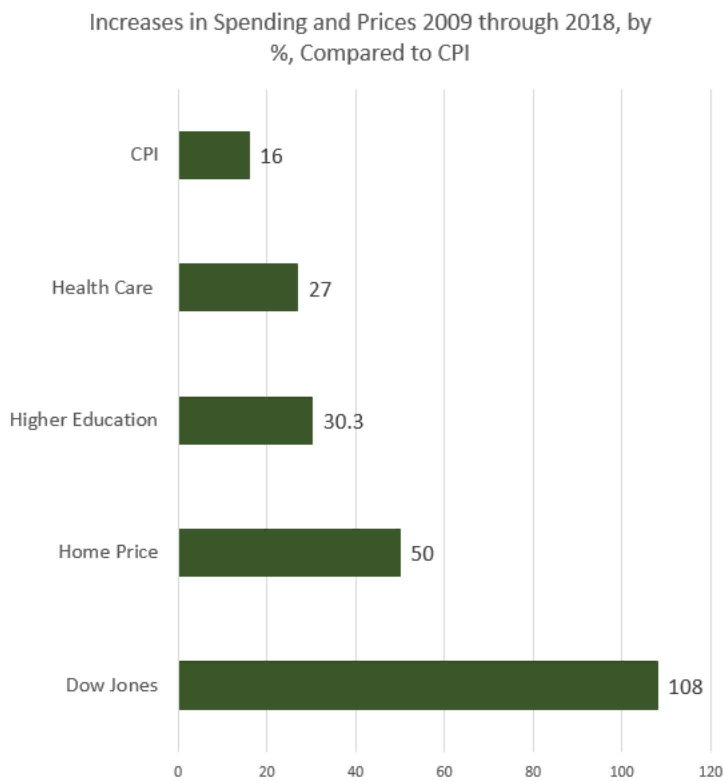
No Deflation Here: Housing, Healthcare, Stocks, and Education

Yet, the CPI increase has been significantly outpaced by prices in a number of sectors.

For example, the price of higher education increased 30 percent over the past decade.[1] At the same time, health care spending per capita increased 27 percent.

Even bigger increases are found in asset prices. According to Case-Shiller, for example, the twenty-city housing index rose 50 percent from 2009 to 2018. During the same period, the Dow Jones rose 108 percent.

Just because price inflation is showing up more in some assets and services than in others doesn't mean it's not there.[2]



Supporters of the status quo tend to defend housing-price increases on the grounds that rising housing prices are good for people who own those assets.This is true. Unfortunately, not everyone is a homeowner.

Those who wish to dismiss the possibility to significant price inflation might also claim the CPI is reflective of the real-world situation because not everyone buys a college education, and not everyone needs sizable medical services. That's true, and averages could be used in these cases to portray that increases in spending in these areas are more muted than the experience of many individuals suggests.

But this ultimately just shows the problem with using broad aggregate numbers and averages to represent the cost of living.

In practice, increases in asset prices hurts first-time homebuyers, and low income households who have so far been unable to afford a down payment and the elevated asset prices we're now seeing. Nor is everyone in the market to buy real estate soon. Or ever. Real estate price increases drive up rents as well, and this is a problem for both young consumers and low-income ones. Over the past decade in the metro Denver area the average rent increased 60 percent in contrast to the CPI increase of 16 percent. In Phoenix, the average rent increased 7 percent from 2018 to 2019.

The CPI might tell us that inflation is "subdued," or "muted," there are plenty of people whose budgets are taking big hits anyway. Moreover, home prices are a big part of most households' monthly expenses. Combined with healthcare spending and higher education, the increases in the cost of living — reflected in price increases — we've seen over the past decade are hardly something we could describe as "deflationary."

Defenders of the there's-no-inflation position might claim "but these price increases are moderated by price declines in other places!" That may be true, but housing, healthcare, and education make up a pretty sizable portion of a family's expenses. Are declines in prices for apparel and gasoline so sizable that they cancel out increases in housing and medicine? This appears to be unlikely for an average person. Thus, we can't simply assume the

CPI's basket of goods necessarily reflect the day-to-day economic realities that ordinary people face. For many people who don't fit the profile of the "average," generic, or aggregated American, the official numbers may not reflect reality at all. Indeed, it appears that lower-income, younger, and more elderly consumers are the ones who suffer the most. For example, elderly retirees on fixed incomes can't just increase their incomes by working more to keep up with price increases. And young people with no assets will have a much harder time acquiring assets if prices are relentlessly speeding upward. Mid-career people with flexible incomes and with assets are one thing. Everyone else is more likely to encounter trouble.

Low Inflation Is Not "No" Inflation

Finally, it's important to keep in mind that what's routinely touted as "low inflation" isn't all that low.

For example, even though we're told we live in an age of exceptionally low inflation, the CPI measure shows the that a dollar's worth of goods and services twenty years ago requires about $1.50 today. Even over just the past decade, what one dollar once bought then requires $1.17 today.

The much-vaunted 2 percent inflation standard shows similar results. If central banks are able to nail the "low" 2 percent inflation level, we'd still end up with a dollar that loses nearly half its value in 20 years. In this scenario, a dollar would lose nearly one-fifth of its value in just a decade.

For regular people who can't count on a 4 percent return on their investments, and who rely on banks which pay around 1 percent, this means a lot of lost wealth in spite of these households' best efforts at saving.

Although central bankers insist a 2 percent inflation rate offers "price stability" the reality is one of significant depreciation in wealth for those who are struggling to acquire assets and who may be facing medical problems, high rent, and and college bills.

This may account for some of the growing divide between higher-income investors and middle- to low-income Americans. They often can't take advantage of the higher-yield options enjoyed by those who already have high incomes and portfolios packed with assets.

As shown by Karen Petrou in recent research, many regular people have placed more of their wealth in real estate, but often real estate in less inflationary markets in middle America. The result has been a class of wealthier investors in expensive coastal cities who own a lot of stocks and own real estate in stylish markets. But there are also many Americans who have smaller portfolios and own real estate in markets that have seen far less appreciation. Inflation is by no means uniform nationwide and it's more benign in some places — and in some socioeconomic groups — than in others.

None of this shows up in the official aggregate data, but the results are real. Some benefit greatly from the asset price inflation. Others aren't benefiting nearly as much.

1.The time period here is 2009–2017, the most recent year available. (https://nces.ed.gov/fastfacts/display.asp?id=76)

2.The matter of where to begin tracking inflation is important. Some might complain I've started tracking price inflation from a recessionary low point. But in this case I've chosen to begin with 2009 because I'm most interested here with tracking the effects of inflation on people new to the market during the past decade. For instance, home prices 20 years ago are irrelevant to a 30-year old first time homebuyer today. But price inflation since 2009 is very relevant. Since the this first-time homebuyer likely didn't own significant assets before 2009, the fact prices were higher in 2007 than in 2009 is not relevant in that case. Similarly, for a person entering into the higher ed or healthcare markets as a consumer during the past decade, he will feel the full brun of rising tcollege expenses and healthcare costs. The fact this inflation would look more mild if we calculated it over 20 or 30 years doesn't help our young consumer much.

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Is 150 Years of Bank Credit Expansion Nearing Its End?

by Alasdair Macleod

Since the turn of the millennium there have been two global bank credit crises: the first was the deflation of the dot-com bubble in 2001–2, and the second the 2008–9 financial crisis that wiped out Lehman Brothers. It was clear from these events that the debate over moral hazard was resolved in favour of supporting not just the banks, but big business and stock market valuations as well. Furthermore, America's budget deficits were becoming a permanent fixture.

This brings us to the current situation, which increasingly appears to be on the edge of another cyclical crisis. If so, it marks the end of a period of far greater monetary and credit expansion than seen in previous cycles, coinciding with a Smoot-Hawley lookalike in the trade war between the two largest global economies.

The following big-picture factors are relevant to the likely timing for a credit crisis:

- Global debt has accumulated to an estimated $255 trillion, up from about $173 trillion at the time of the Lehman Brothers crisis An alarming proportion of it is unproductive, being government debt, consumer loans, and funding for financial speculation as well as owed by unviable businesses.
- With annual debt payments already accounting for most of the US budget deficit and that deficit getting larger, any rise in dollar interest rates would be ruinous for Federal government finances. Eurozone governments are in a similarly precarious financial position. Governments are ensnared in a classic debt trap.
- An estimated $17 trillion of global bonds are negative yielding, which is unprecedented. This is a market distortion so extreme that it cannot be normalised without widespread financial disruption and debtor destruction. There is no exit from this condition.
- The repo market crisis in New York indicates the banking system is in intensive care. The start of it coincided with the completion of the sale of Deutsche Bank's prime dealership to BNP. It would be understandable if large deposits had failed to transfer with the business and gone to rivals instead. The problem has continued, indicating that senior bankers' groupthink is already turning from greed to fear.
- US bank exposure to collateralised loan obligations and the leveraged loan market, comprised mainly of junk loans and bonds, is the equivalent of most of the estimated $1.9 trillion sum of bank capital. It confirms this article's thesis that the level of ignorance over banking risk is the late stage of the bank credit cycle and likely to be catastrophic.
- The share prices of Deutsche Bank and Commerzbank indicate they are not just insolvent but will need to be rescued — and soon. Banks in other eurozone jurisdictions are in a similar situation. However, all eurozone countries have passed bail-in laws and do not expect to bail out individual banks. The upshot is at the first sign of a bail-in being considered, a flight of large deposits will very likely be triggered and bank bond prices for all eurozone issuers will collapse. The room for error in crisis management by central banks is considerably greater than at the time of the Lehman crisis eleven years ago.

An extreme amount of monetary creation over the last ten years and the US-China trade war over the last two is horribly reminiscent of late 1929, when the combination of the end of the credit cycle and escalating trade protectionism combined to wreak financial destruction on a global scale.

Even if a halt to the trade war between the US and China is agreed in the coming weeks, the crisis has been triggered and our empirical evidence suggests it will get worse. It appears that common sense on trade policies is unlikely to prevail, because the conflict is far deeper than just trade, with the Hong

Kong riots part of the overall picture.

The Chinese believe America has destabilised Hong Kong, and with good reason: the US Treasury has become dependent on receiving the lion's share of international portfolio flows to support the dollar and finance the US budget deficit, and China's own investment demands are a threat. With the dollar's hegemony under attack and China seeking those same portfolio flows to invest in her own infrastructure projects through the Hong Kong Shanghai Connect link, Hong Kong had to be destabilised.

For this and other reasons, trade tariffs are only part of a wider financial war, which is increasingly likely to escalate further rather than abate. With his trade policies having backfired badly, President Trump is now under pressure with time running out before the election in a year's time. He is threatened with impeachment by Congress over the Ukraine affair, and his popularity ahead of an election year remains subdued. He has even appealed to Jay Powell, chairman of the Fed, to introduce negative interest rates to boost the economy. Backing down over China is unlikely, because it would be a presidential policy failure.

What Will the Developing Crisis Look Like?

Clearly, central banks will respond to the next credit crisis with an even greater expansion of money quantity than at the time of the Lehman crisis eleven years ago. The consequence of this monetary inflation seems certain to lead to an even greater rate of loss of purchasing power for fiat currencies than currently indicated by independent assessments of price inflation.

Monetary inflation is likely to be directed at resolving two broad problems: providing a safety net for the banks and big businesses, as well as funding rising government deficits. Therefore, the amount of quantitative easing, which will be central to satisfying these objectives, will soar.

The effect on markets will differ from being a rerun of the 1929–32 example in one key respect. Ninety years ago, the two major currencies, the dollar and sterling, were on a gold exchange standard, which meant that during the crisis asset and commodity prices were effectively measured in gold. Today, there is no gold backing and prices will be measured in expanding quantities of fiat currency.

Prices measured in fiat currencies will be determined ultimately by the course of monetary policy. But in real terms, the outlook is for a repeat of the conditions that afflicted markets and economies during and following the 1929 Wall Street crash. A further difference from the Depression years is that today Western governments have extensive legal obligations to provide their citizens with welfare, the cost of which is escalating in real terms. Add to this the cost of rising unemployment and a decline in tax revenue and we can see that government deficits and debts will increase rapidly even in a moderate recession.

This brings us to an additional problem, likely to be evident in a secondary phase of the credit crisis. As it becomes obvious that the purchasing power of fiat currencies is being undermined at a rate which is impossible to conceal through statistical methods, the discounted value of future money reflected in its time preference will rise irrespective of interest rate policy. Consequently, borrowers will be faced with rising interest rates to compensate for both increasing time preference and the additional loan risk faced by lending to different classes of borrowers.

Besides closing off virtually all debt financing for businesses and increasingly indebted consumers, this will play havoc with governments accustomed to borrowing at suppressed or even negative interest rates. Prices for existing bonds will collapse, and banks loaded up with government debt to benefit from Basel Committee on Banking Supervision regulations will find their slender capital, if they have any left, quickly eroded.

The world of fiat currencies faces no less than its last hurrah. Indeed, some of the more prescient central bankers appear concerned the current system is running out of road, with the dollar as the world's reserve currency no longer fit for this purpose. They want to find a means of resetting everything, exploring solutions such as digitising currency through blockchains, doing away with cash, and finding other avenues to try to control the so-called vagaries of free markets.

None of them will work, because even a new form of money will require inflation to rescue government finances and prevent financial and economic failure. The accelerating pace of monetary creation to address these problems will remain the one problem central to the failure of a system of credit and monetary creation: the impossibility of resolving the debt trap that has ensnared us all.

Just as Germany found in 1923, monetary inflation as a means of funding government and other economic liabilities is a process that rapidly gets out of its control. Eventually, people understand the debasement fraud and begin to dispose of the fiat currency as rapidly as possible. It then has no value.

The ending of the fiat currency regime is bound to terminate the repeating cycles of bank credit legitimised since 1844. The socialism of money through inflationary debasement will be exposed as a massive fraud perpetrated on ordinary people.

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How Today's Central Bankers Threaten Civilization

by Claudio Grass

When I was asked to write an article about the impact of negative interest rates and negative yielding bonds, I thought it was a chance to look at the topic from a broader perspective. There have been lots of articles speculating about the possible implications and focusing on their impact in the short run, but it's not very often that an analysis looks a bit further into the future, trying to connect money and its effect on society itself.

Qui Bono?

Let us begin with a basic question, that lies at the heart of this issue: Who profits from a loan that is guaranteed to pay back less than the amount borrowed? Obviously, it is the borrower and not the lender, which in our case is the government and those closely connected to it. Negative rates and negative-yielding bonds by definition favor the debtors and punish the savers. In addition, these policies are an affront to basic economic principles and to common sense too. They contradict all logical ideas about how money works and they have no basis and no precedent in any organic economic system. Thus, now, in addition to the hidden tax that is inflation, we also have another mechanism that redistributes wealth from the average citizen to those at the top of the pyramid.

Thus, this very concept of a central authority being able to bend and twist the rules, even when the result is illogical, has implications that extend way beyond daily economic activities. In fact, it ultimately divides society into two classes, those who profit from this arbitrary and unilateral rewriting of the rules and those who are forced to pay the price even though they never agreed to it. In fact, they weren't even asked.

A System of Collective Corruption

Of course, we can also look at it from the collective perspective of the so-called social contract of Rousseau and argue that this system of overt (taxation) and covert (monetary policy) redistribution is legitimate, or even benign. You might still believe that the state will take care of you in the future, and thus you are willing to sacrifice a part of your wealth and savings today to make sure that happens. In that case, it is useful to remember that the current central banking system is not that old. It's only been around for about hundred years, or two long-term debt cycles combined. The first cycle ended when President Nixon officially tried to demonetize gold in 1971, empowering a centralized system whereby a few decide who receives the currency first and at what interest rate, allowing them to create bubbles in certain asset classes, protect different key industries and to use it to finance wars and enrich politicians and those close to them.

So far, total credit on a global scale stands around $240 trillion. It's hard to conceive of such a number, but if you consider that 1 trillion seconds are equal to 31,709 years, you might begin to wrap your head around just how leveraged the system has become. We should never forget that debt is always consumption brought forward. That being said, debts need to be paid back or forgiven — there is no other outcome. In addition, the amount of debt that a system can take on is limited, and when a credit-based system can't grow any further, the logical outcome is the collapse of the whole system. As Ludwig von Mises described this a long time ago,

> There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.

This is the reason why central banks started trying to avoid this systemic collapse by taking interest rates below zero and allowing the big players to take on debt for free and to reduce their debt burden at the same time. This, of course, is something that we already witnessed extensively during the past decade and it is just a matter of time until more central banks, including the Federal Reserve, use the same fraudulent tactic to let some air out of the balloon, and to deleverage the debtor at the cost of the saver. However, it is very questionable whether this can be successfully managed, especially since demographics have been a problem for decades in the West, making growth a problem too. Governments enforced a mass-immigration policy to fight this aging population trend, yet its execution has been disastrous; instead of rejuvenating nations and spurring productivity, it has ended up crushing the national welfare systems.

It is thus clear that the current path that governments and central bankers have selected is utterly unsustainable and that their attempts at short-term "patches" have little hope of stopping the inevitable implosion, which has already been decades in the making. Pretending otherwise is as futile as it is naïve. As Ayn Rand put it,

> We can ignore reality, but we cannot ignore the consequences of ignoring reality.

The "De-Civilization" Effect

Negative interest rates are a great example of these short-term patches, only in this case, they are not just useless as a cure for our economic ills, but they actually do more harm than good.

The outcome of this policy is that time becomes worthless. As one's hard-earned money, set aside for a rainy day or for one's children's education, instead of appreciating, as logic would dictate, diminishes day by day, it does not make sense any longer to produce and to save. The basic motivation for each individual to get up in the morning and to work hard to achieve a higher living standard is removed, and time, therefore, turns into a dimension without any value. If people can't save any longer, by government decree, then there is no other way than to consume. And with all traditionally safe investment options gone, they are only left with the option of speculating in rigged financial markets, and the massive risk that comes with it, especially now, when we're nearing the end of a long-term debt cycle.

The individual is thus turned more and more into a state dependent, as the basis for a free life is financial independence and the ability have savings on the side that keep you self-reliant. The fundament of a successful system requires individuals that live a decent life, knowing that they must first produce before they can consume.

The masses are trained and forced to consume and spend money they don't have to buy things they don't need. Our monetary system in combination with this kind of public policy causes mass overconsumption, the destruction of wealth, capital consumption, and the destruction and exploitation of nature.

People significantly add value to society if they are able to save, as this allows them to invest at a later stage, once they have accumulated as much as needed, and thereby aid others in their own efforts to succeed and to reach financial independence. Parents can help their children and investors can help budding new companies that bring innovative ideas that benefit the economy and society as a whole. As this virtuous cycle continues, based on productivity, long-term thinking, and responsible financial management, "the rising tide lift all boats".

To the contrary, when this natural process is forcibly disrupted and reversed, the effects are deleterious and far-reaching: mass overconsumption, the destruction of wealth, and the exploitation of nature and the environment are all symptoms of this institutional and massive push towards short-term thinking and of being forced to focus just on today, at the expense of tomorrow.

Wider Implications

Thus, what is at stake is not only the world economy, but the accelerating decline of Western culture, which, based on liberalism (personal freedom and private property rights) and Christianity (personal responsibility), laid the foundation for a decentralized Europe that allowed for competition of goods and services but especially the competition of ideas. This dangerous decline is nothing new, either, as it began after World War I, when Europe turned towards a more centralized approach, with all sorts of collectivist ideas causing all kinds of schisms that we still see today in modern societies. Today, we see a rapid acceleration of this decline, as our economic system can barely remain standing, and as our politics and our societies devolve even faster into tribal or more precisely into political identity groups, fighting each other over meaningless feuds. All the while they are distracted from the real threat, the one that governments and central banks pose to their future and to their children's future.

As long as people are afraid of liberty and falsely delegate their self-responsibility to a central authority, hope is dim. It's time to think independently about whether today's centralized system really makes sense, if it is sustainable, and for how much longer. If the answers to these questions scare you, it is pointless to expect solutions to come from above. It is then time to act directly and responsibly, with a solid plan, hard physical assets privately owned, and a long-term strategy that does not depend on the whims and caprices of those in charge.

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Nineth 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 9: Creating a Bank Like the Ones You Already Know About

Content: Page 19, *Becoming Your Own Banker Fifth Edition*

As in the grocery business that we discussed earlier, you must first study the banking business so that you have a firm grip on what it is all about and feel that you can run such a business. Without this confidence you are fighting a losing battle. This, too, is a very competitive business.

Next, you must come up with some capital – money.

In today's world it should be in the order of $20 million or more and it must be on deposit at some other bank in a very liquid form -- i.e. earning a very low interest rate while you are trying to get the Banking Commissioner in your state to issue you a charter. This is not all that easy to do. The odds of you getting a charter at this point are less that 100 to 1. There are a lot of other folks in your state wanting to get into the banking business too, and you must wait your turn. This could easily take 10 years!

A lot of what is going on at this stage is unseen. Whenever I hear the word "commissioner" it reminds me of an iceberg -- only 10% of it appears above the water! Surely, you have had some experience with bureaucracy, so use your imagination as to what I'm describing. The bottom line is that you are going to spend a lot of time and money in this phase of creating your own bank. Years are likely to have passed before you finally win the coveted charter. In the meantime, you have probably gone through the part about a good location and an attractive building – all at considerable expense.

Now you are finally in the banking business! You must make your bank known by lots of advertising and trying to induce other people to deposit money in your bank. This is going to cost you a lot of money. Banks are in the business of lending money. Adam Smith, in his book, *Paper Money,* says, "A banker cannot make a loan unless he has a deposit. It seems a little silly to state that so baldly, but if three college educated Americans in ten don't know we have to import oil, I don't feel so bad about saying some-thing bald. Banks do not lend their money. They lend the money someone else left there." He goes on to say, "When you start up a bank, you have to put in some capital. Then you get some deposits, and then you lend the deposits. In a proper bank these three items bear a prudent relation to one another. If you are a little country bank with a capital of $100,000 it would be imprudent of you to loan Brazil $50 million. So, you want a prudent relationship between the capital and the assets, which is to say the loans on the books, and between the loans and the deposits. In the Western countries the financial agents of the government are there with a definition of prudence."

Even with such government oversight banks can, and do, still fail. There were massive failures in the 1980s. A case comes to mind. In September 1983 the First National Bank of Midland, TX (the richest city in America per capita at that time) had a loan portfolio of $1.5 billion. And 26% of the loans were non-performing, i.e., they were not getting the money back. When this happens in a bank someone must support the situation, and this is normally the function of the stockholders. Because of the losses, the stockholders' equity lost 87% of its value down to $12 million. This is in relation to a $1.5 billion loan portfolio! That's a shaky bank! Guess what happened when the depositors learned of this? Right! They withdrew $500 million! Remember, this is what bankers lend, the deposits.

This sounds ominous, but you haven't seen anything yet! You must add the "multiplier effect" of bank lending practices. Practically no one knows that when one makes a deposit of $1,000 at a bank, the bank can now lend out $10,000. Where did the other $9,000 come from? They are creating money out of thin air! It is called the "fractional reserve lending system." I call it the world's largest "con game." It is all predicated on the theory that "everyone is not going to withdraw their money at the same time." For a complete understanding of all this, read *The Creature from Jekyll Island* by G. Edward Griffin, and also, *The Case Against the Fed* by Murray Rothbard.

So, First National hired a new CEO to come in and "put out the fire," but it was too late. Two months later they were out of business. More understanding of what really happened appeared in the December issue of a drilling magazine. Reading "between the lines," it was pretty evident that a lot of those non-performing loans were made to the members of the board of directors.

Does this remind you of the grocery store example that we studied earlier? If the owner and his family go out the back door without paying for them, he will probably go bankrupt. The same think happens in the banking business!

Remember this, because in the banking system I am going to tell you about, you can also destroy it by not obeying the basic rules of banking. Loans have to be paid back or you can kill the best business in the world. It is all up to you, but don't try to blame others when it happens. We will continue this in lesson 10. I'll see you then.

IBC Practitioner Think Tank

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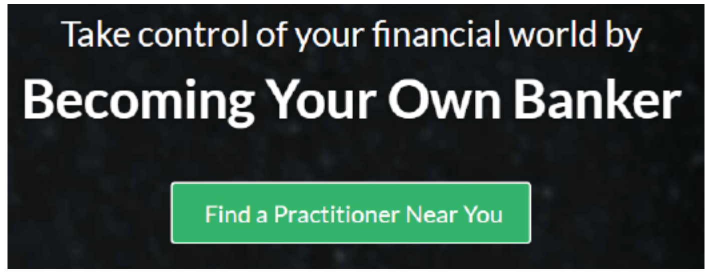

The following financial professionals joined or renewed their membership to our ***Authorized Infinite Banking Concepts Practitioners*** team this month:

- William Mora - Houston, Texas
- Will Moran - Edmonton, Alberta
- Michael Sparks - Clarksville, Tennessee
- Dennis Guy - Marianna, Florida
- Nick Kosko - Louisville, Kentucky
- Julius Botelho - Inyokern, California
- Karen Powell - Atlanta, Georgia
- Kurt Berry - Elizabethton, Tennessee
- Steven LaBella - Fontana, California
- Michael Burrill - Auburn, California
- Robert Cannon - New York, New York
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