

BANKNOTES

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Why the Current Unemployment Is Worse Than the Great Depression

by Robert P. Murphy

The latest report on new unemployment claims was abysmal, coming in at 4.4 million last week, some 100,000 more than surveyed economists had expected. The continuous claims came in at just under 16 million, an all-time record. Mainstream labor economists estimate that, all things considered, the actual unemployment rate now (which is only officially reported with a lag) is above 20 percent—a rate not seen since the darkest days of the Great Depression. Indeed, all of the job gains since the Great Recession have been wiped out in just a matter of weeks.

What's worse, even though the official unemployment rate is probably not quite as high as it was in 1933 (when it averaged 24.9 percent), there are reasons to believe that our labor market is currently in even worse shape economically than it was at the lowest depths of the Great Depression. Furthermore, once we take into account insights from Austrian capital theory, we can see why Keynesian hopes for a rapid recovery—and calls for longer lockdowns due to health concerns—are misguided.

Why the Current Unemployment Is Worse Than the Great Depression

In the first place, there is a technical reason that the government's official unemployment figures for 1933 are misleading: at that time, people who held "make work" jobs funded by government relief efforts were counted as unemployed. (In my opinion, this was the correct judgment.) If instead we use adjusted figures (according to Darby 1976) then annual unemployment during the Depression peaked at 22.5% in 1932. In other words, if we count unemployment in the 1930s the way we count it today, then arguably the "official" rate is already the worst in US history, period.

However, besides this technical issue, there is a much more fundamental difference between unemployment in the early 1930s and today: back then, the people out of work had been *laid off*. Yet today, the people out of work are in *lockdown*.

This is an enormous distinction. When the economy crashed following the stock market in 1929, consumers restricted their spending according to their preferences as to what was most expendable. Some businesses went under

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completely—and *these were the businesses that were the least important*, according to their customers.

At the same time, plenty of other businesses remained afloat, but they cut back their workforces. Again, *businesses laid off the most expendable workers*, as judged by the managers/owners.

Intuitively, during the Great Depression and any other standard recession, for that matter, the economic system sheds those jobs that are the least important, in order to gradually reallocate workers into niches that are more appropriate. The deeper the malinvestments have been during the boom phase, the more workers will find themselves in unsustainable outlets when the crash occurs. But *given* the fact that X percent of the jobs need to disappear, the market economy during a normal downturn sheds them in the most economical areas, causing as little disruption to the flow of goods and services *as judged by the consumers*.

In complete contrast, today the principal criteria for which 20+ percent of current workers have lost their jobs are (1) they don't work in an occupation that can be done from home and (2) they aren't deemed "essential" by government officials. Naturally, these criteria don't come close to approximating what is the most economical way to shed jobs, from the perspective of consumers.

An Analogy with the Household Budget

In the previous section, I argued that our current labor market disruption was much more economically significant than what was seen even during the depths of the Great Depression. Let me use an analogy to drive home the point.

Suppose your household were forced to restrict its spending by 25 percent. (Indeed, this might not be a mere hypothetical for many unfortunate readers right now.) However, there are two options for achieving this outcome. Under Option #1, the adults in the household get to decide where they will cut their spending, subject to the requirement that they reduce the total by 25 percent.

Under Option #2, an outside government official—in consultation with various experts—forces the

household not only to cut spending by 25 percent, but also specifies where the spending cuts will occur.

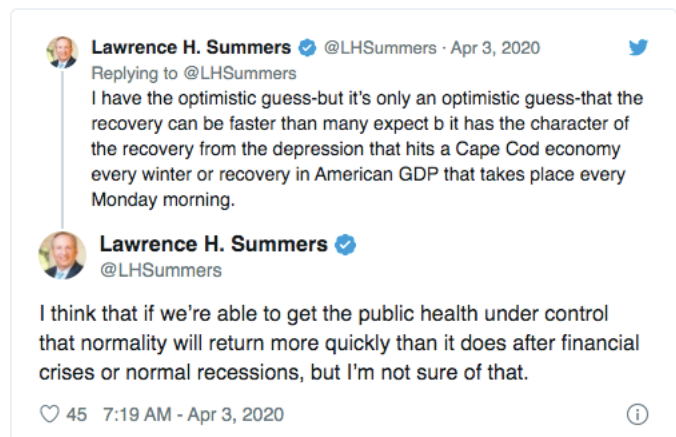
Which option would be more burdensome? The answer is clearly #2.

Likewise, given that the economy has to endure an unemployment rate above 20 percent, it's far preferable if consumers and business owners get to effectively pick (through voluntary market actions) *which* workers are laid off. It is far more devastating to endure our current situation, in which the workers who have lost their jobs have been selected by technological facts (i.e., whether a job can be done remotely) or through the political process.

Keynesians Ignore Capital Structure

Besides the important distinction between layoffs and lockdowns, there is another reason that Keynesian economists are underestimating the devastation wrought by the current policies: Keynesians typically don't have a long-term "capital structure" in their models the way Austrians do.

For example, consider this tweet from Larry Summers:



The problem here is that Summers is viewing things through the lens of aggregate demand: following a financial crisis, consumers and businesses try to pay down debt, and this means that only government pump-priming can boost total spending up to full employment levels (especially if we're in a liquidity trap).

But since that's not the issue here, Summers thinks

that once the lockdown ends all of the “pent up” consumer demand will return and things should go back to normal. Why, it will be just like people going back to work on a Monday.

Yet what Summers is leaving out is that there’s more to the economy than labor going into a production function in order to spit out goods for purchase. Each of us at our respective jobs uses all sorts of intermediate goods produced by *other* people in the distant or recent past.

The weekend, or tourist season at Cape Cod, is a very predictable event, and we have enough inventories (in food, refined gasoline, etc.) to carry us over the hump. Likewise, if a certain area of the country gets hit with fires, an earthquake, or a tornado, such that workers in that region can’t get to their jobs even for weeks at a time, it’s manageable because the rest of the economy can pick up the slack.

But in our current lockdown *the entire country* has been forcibly prevented from doing business as usual. The longer this process continues, the more our integrated, complex capital structure is going to break down. It does no good for the carpenters to go back to work if there are no new nails available for them to use.

Most states are currently poised to begin a phased return to work within the next week or two, so hopefully we can get ahead of the breakdown before it becomes too bad. But those economists arguing that we should extend the lockdown for many more months, and that we can use government “relief spending” to carry us over the hump, are being quite blind to the dangers in such a policy.

Health vs. GDP

As a final note, let me mention that in our household we are being extremely cautious about the coronavirus because of my wife’s medical history. I am not elevating concerns of GDP over health.

In fact, from a purely self-centered standpoint I want low-risk people to leave their homes so that they can get the virus and (hopefully) only suffer mild symptoms, so that its overall prevalence in the

community quickly fades away. This will make it safer for members of my household, if and when we carefully venture out into the world after this initial period of isolation.

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

How to Think About the Fed Now

by Jeff Deist

This text is excerpted from the introduction to *Anatomy of the Crash*, a Mises Institute ebook released in April 2020.

The Great Crash of 2020 was not caused by a virus. It was precipitated by the virus, and made worse by the crazed decisions of governments around the world to shut down business and travel. But it was caused by economic fragility. The supposed greatest economy in US history actually was a walking sick man, made comfortable with painkillers, and looking far better than he felt—yet ultimately fragile and infirm. The coronavirus pandemic simply exposed the underlying sickness of the US economy. If anything, the crash was overdue.

Too much debt, too much malinvestment, and too little honest pricing of assets and interest rates made America uniquely vulnerable to economic contagion. Most of this vulnerability can be laid at the feet of central bankers at the Federal Reserve, and we will pay a terrible price for it in the coming years. This is an uncomfortable truth, one that central bankers desperately hope to obscure while the media and public remain fixated on the virus.

But we should not let them get away with it, because (at least when it comes to legacy media) the Fed's gross malfeasance is perhaps the biggest untold story of our lifetimes.

Symptoms of problems were readily apparent just last September during the commercial bank repo crisis. After more than a decade of quantitative easing, relentless interest rate cutting, and huge growth in "excess" reserves (more than \$1.5 trillion) parked at the Fed, banks still did not have enough overnight liquidity? The repo market exposed how banks were capital constrained, not reserve constrained. So what exactly was the point of taking the Fed's balance sheet from less than \$1 trillion to over \$4 trillion, anyway? Banks still needed money, after a decade of QE?

As with most crises, the problems took root decades ago. What we might call the era of modern monetary policy took root with the 1971 Nixon Shock, which eliminated any convertibility of dollars for gold. Less than twenty years later, in October 1987, Black Monday wiped out 20 percent of US stock market valuations. Fed chair Alan Greenspan promised Wall Street that such a thing would never happen again on his watch, and he meant it: the "Greenspan Put" was the Maestro's blueprint for providing as much monetary easing as needed to prop up equity markets. The tech stock crash of the NASDAQ in 2000 only solidified the need for "new" monetary policy, and in 2008 that policy took full flight under the obliging hand of Fed chairman Ben Bernanke—a man who not only fundamentally misunderstood the Great Depression in his PhD thesis, but who also had the self-regard to write a book titled *The Courage to Act* about his use of other people's money to reinflate the biggest and baddest stock bubble in US history.

James Grant of Grant's Interest Rate Observer characterizes the Fed's recent actions as a "leveraged buy-out of the United States of America." The Fed is assumed to have an unlimited balance sheet, able to provide financial markets with "liquidity" as needed, in any amount, for any length of time. Pennsylvania senator Pat Toomey urges the Fed to do more, and Congress to spend more, all in the unholy name of liquidity.

But liquidity is nothing more than ready money for investment and spending. In the current environment it is a euphemism for free manna from heaven. It is "free" money—unearned, representing no increase in output or productivity. It has no backing and no redeemability. And not only are there no new goods and services in the economy, there are far fewer due to the lockdown.

So monetary "policy" as we know it is dead as a doornail. What central banks and Fed officials do no longer falls within the realm of economics or policy; in fact the Fed no longer operates as what we think of as a central bank. It is not a backstop or "banker's bank," as originally designed (in theory), nor is it a steward of economic stability pursuing its congressionally authorized dual mandate. It does not follow its own charter in the Federal Reserve Act (e.g., impermissibly buying corporate bonds). It does not operate based on economic theory or empirical data. It no longer pursues any identifiable public policy other than sheer political expediency. Fed governors do not follow "rules" or targets or models. They answer to no legislature or executive, except when cravenly collaborating with both to offload consequences onto future generations.

The Fed is, in effect, a lawless economic government unto itself. It serves as a bizarro-world ad hoc credit facility to the US financial sector, completely open ended, with no credit checks, no credit limits, no collateral requirements, no interest payments, and in some cases no repayments at all. It is the lender of first resort, a kind of reverse pawnshop which pays top dollar for rapidly declining assets. The Fed is now the Infinite Bank. It is run by televangelists, not bankers, and operates on faith.

Jeff Deist is president of the Mises Institute. He previously worked as chief of staff to Congressman Ron Paul, and as an attorney for private equity clients.

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Why Americans Don't Have Any Savings

by Frank Hollenbeck

In response to a likely worldwide recession, governments have turned on full blast the fiscal and monetary spigots. A \$2 trillion spending plan has just been approved in the USA, central banks are on a buying spree, and the \$1200 stimulus payment is just helicopter money. Since the government does not have a magical tree of plenty and can only redistribute from the left pocket to the right by taxing, borrowing, or printing money, how does this make any economic sense or make any country better off? Government and Keynesian economists will tell you it's to protect us from the coming dangers of hoarding; specifically, that banks will stop lending and just let funds sit. Keynes brought hoarding to the forefront of economics in his *The General Theory of Employment, Interest, and Money*; a concept that the classical economist considered to be irrelevant.

In a circular flow economy, the value of output must be equal to income. Income represents an ability to purchase goods and services and can be divided into three categories: it can be consumed, saved, or hoarded. Consumption is using income to obtain goods and services for current personal satisfaction. Savings is (correctly) defined as a transfer of purchasing power from one group to another.¹ The saver is giving up his current access to goods and services to be able to consume more of them in the future. These transfers allow investors to use these claims to purchase plants and equipment to produce goods and services in the future. The last category is hoarding, which in the Keynesian view is the equivalent of stuffing money in your mattress for a rainy day. It is the only claim on income that is not used to purchase currently produced goods and services.

This Keynesian nonsense about hoarding has been around for nearly a century and has led to some very bad economic decisions over the last eighty years. In reality, hoarding is just saving, and a simple example will show how the fear of hoarding is grossly over-

blown. Hoarding simply increases the value of dollars in circulation and is hardly anything to panic about.

Suppose there are ten pencils and only \$10. Supply and demand will ensure that the price of each pencil will be \$1 each. If the price of each pencil was \$2, you could only afford to buy half of the pencils, and the unsold pencils would drive the price down. If the price was only 50 cents, then people would still have \$5 looking for pencils to buy, driving their price up. Now suppose that people hoard or stuff their mattresses with \$2 and we only have \$8 left to buy ten pencils. The price for each pencil will normally decline to eighty cents, putting us back in equilibrium. The Keynesian fear, though, is that prices are rather inflexible or adjust poorly, such that the price remains at \$1 and we are left with two unsold pencils. There's not enough demand at the old prices. Keynesians advocate government spending to replace this lost demand.

Another Keynesian fear is that if input costs such as wages don't adjust and the cost of each pencil is stuck at ninety cents when the price has fallen to eighty cents, then businesses will be selling at a loss, leading to reductions in output, bankruptcies, more hoarding, and a downward spiral in the economy. This is the Keynesian fear of deflation. Hence, for a Keynesian either output prices don't adjust or if they do, input prices don't adjust fast enough. Of course, this entire Keynesian nightmare scenario assumes that in a market economy both input and output prices adjust slowly or with a long lag. This scenario has not been shown to be true in the real world—unless, of course, governments interfere—and we then might as well assume a world with negative gravity and suggest a policy of large nets to catch people from flying into outer space. If we assume that the successful entrepreneurs are the ones who best forecast output prices and then bid for input prices, there is no real reason to believe that prices in a market economy won't adjust quickly. There is no empirical evidence that prices are sticky when governments allow them to adjust. If you need a current example, just look at the recent steep dive in oil prices.

Although governments continue their war on cash

for fear of hoarding, their real concern today is not individuals stuffing their mattresses, but bank lending. When you put money in your checking account, you are expressing a desire to store purchasing power: otherwise, you would have put this cash in a savings account or purchased a bond. You assume that this money is always there, but banks take this money and lend it to other individuals and businesses in a practice known as fractional reserve banking. This process creates money out of thin air when a bank credits a borrower's account without debiting the same amount from someone else's account. It converts your desire to hoard—i.e., save—into spending by someone else with newly created money.

The government fear is that a recession will increase bankruptcies, nonperforming loans, and induce banks to cut back on lending, or essentially allow the money in checking accounts to revert to its intended function as a store (or reserve) of purchasing power. The money supply will then contract, leading to the Keynesian nightmare scenarios described above. But this money contraction results not from hoarding, but from fractional reserve banking. It is this process which leads to swift contractions in the money supply when recessions strike. This problem would be mitigated by more real saving, including the type of saving that Keynesians call "hoarding."

1. The General Theory is almost impossible to read because Keynes constantly used the same term to refer to different things. For example, he used the word "savings" to mean a transfer of claims (savings) as well as a store of claims (hoarding).

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Leonard E. Read on Why Means Matter More Than Ends

by Gary M. Galles

History has produced an almost endless supply of those who would remake society into the utopia they imagine. But in trying to mold people into what they must be to match dictators' mental images, they forget that the ends actually achieved will not match their

imaginings and that the means which they must use are unjust, as well as undermining individuals' potential.

Leonard Read was an astute observer of such coercive political panaceas. And he frequently started his rebuttals by citing Ralph Waldo Emerson: "Cause and effect, means and ends, seed and fruit, cannot be severed; for the effect already blooms in the cause, the end pre-exists in the means, the fruit in the seed."

Reflecting Emerson, Read argued that the ends that will actually be produced need not match those intended. The ends that will be achieved will actually be implied by the means used. Only moral means can achieve moral advances. Conversely, immoral means will "achieve" moral decline. He made that argument most clearly in "The Bloom Pre-Exists in the Seed," in his 1969 book *Let Freedom Reign*. On its 50th anniversary, it merits reconsideration:

"[Many] people expect to achieve lofty goals without any thought of the means they use...[but] a hard look at means and ends is appropriate."

"Ends, goals, aims are but the hope for things to come...They are not a part of the reality... from which may safely be taken the standards for right conduct. They are no more to be trusted as benchmarks than are day dreams or flights of fancy. Many of the most monstrous deeds in human history have been perpetrated in the name of doing good—in pursuit of some 'noble' goal. They illustrate the fallacy that the end justifies the means."

"Examine carefully the means employed, judging them in terms of right and wrong, and the end will take care of itself."

"[For] an individualist...valued above all else [is] each distinctive individual human being."

"If we would find the distinction between collectivism and individualism... examine the actions—means—that are implicit in achieving the goals."

Collectivism's Means

"Implicit in the collectivistic approach...is the

masterminding of the people who make up society...
The control of the individual's life is from without."

"The collectivistic view holds that...The individual does not fit himself into place but, instead... is assigned that niche or role which the political priests believe will best serve whatever societal pattern they have formulated."

"Implicit...is that men exist who are competent to form the ways and shape the lives of human beings by the millions...that there are those who not only can rightly decide what is best for all of us but who can prescribe the details as to how the best that is in us can be realized."

"Any conscientious collectivist, if he could... properly evaluate the authoritarian means his system of thought demands, would likely defect."

"However lofty the goals, if the means be depraved, the result must reflect that depravity. Therefore, the eventual outcome of the collectivistic way of life may be accurately predicted by anyone who understands the means which must be employed."

Individualism's Means

"When the individual [is] the ultimate goal...the means implicit in achieving such a goal must be radically different."

"Either I will concentrate on me and my welfare or on others and their welfare... mind my own business or mind other people's business."

"In view of the obstacles to the relatively simple task of self-realization, reflect on the utter absurdity of...undertaking to manage the lives of millions."

"Each individual best promotes his own self-interest by peaceful, social cooperation as in the free market. Indeed, the more I make of myself the more are others served by my existence...The way to assume 'social responsibility' is for the individual to rise...as far as possible."

Private Ownership: Voluntary Means and Beneficial Ends

"The incentive of private ownership is far more

powerful than the sentimental thrust of laboring for the-good-of-all."

"If we concede...that man has a right to his life, it follows that he has a right to sustain life, the sustenance being the fruits of one's own labor. Private ownership is as sacred as life itself."

"Private ownership lies at the very root of individual liberty. Without it there can be no freedom; with it freedom is secure. For private ownership presupposes free choice in disposition, that is, freedom to exchange. It is senseless to talk about freedom if the right of private ownership be denied."

"Can we pronounce a moral judgment on these means implicit in the individualistic goal... These means serve as a powerful thrust toward the individual's material, intellectual, moral, and spiritual emergence—and that is right! Others—those who comprise society—are the secondary beneficiaries of individual growth. If we would help others, let us first help ourselves by those means which qualify as righteous."

Leonard Read saw that coercive utopian "reforms" by their nature—substituting external dictation for individual choices, which are the only way for individuals to mature or "bloom"—had to be both unsuccessful and unjust.

In contrast, voluntary means that violate no one's rights are the only reliable path to individual growth and social advance. He knew that the bloom of liberty pre-existed in the seed of self-ownership, and the wilting of collectivism pre-existed in its violations of self-ownership. That is a lesson few have ever learned as well as Read, and which we are in desperate need of relearning today.

Gary M. Galles is a professor of economics at Pepperdine University. His recent books include *Faulty Premises, Faulty Policies* (2014) and *Apostle of Peace* (2013). He is a member of the FEE Faculty Network.

This article was originally published on FEE.org. Read the original article.

All Crises Are Local

by Jeff Deist

"South Dakota is not New York City."

A seemingly innocuous statement, made last Wednesday by Governor Kristi Noem in response to calls for her to issue a coronavirus shutdown across a state with the motto "Under God the People Rule."

South Dakota, after all, is one of the least densely populated states in the vast American West. Surely local circumstances should inform local responses to a communicable disease?

Not so, according to Noem's scolds at Change.org. They want the same "theory" applied in Brooklyn and in prairie towns with eleven residents per square mile.

To her tremendous credit, Governor Noem has held firm against the tide of state officials ordering lockdowns and shelter-in-place directives. As of today five US states do not have statewide shutdown orders in place, and some sheriffs too have stood bravely against impositions of soft martial law.

Here are some of Governor Noem's excellent recent statements regarding South Dakota's response to the pandemic:

The calls to apply for a one-size-fits-all approach to this problem is herd mentality.

The people are primarily responsible for their safety. Our constitution ensures that the citizen's right is protected. I agree with the role of our government as set forth in our state and in our national constitution. [I oppose] draconian measures much like the Chinese government has done [and] actions we've seen European governments take that limit [the] citizen's rights.

Refreshing, and also a needed reminder that all crises are local. No matter how rich you are or where you live, you are enormously dependent on localized medical care, food, water, electricity, gas, and general lawful behavior. Every calorie, kilowatt, and drop of water must make its way to your location no matter how complex the underlying economy is

today. Doctors, nurses, and drugs must be available within a reasonable distance of your location. None of the physical substances necessary for your survival can be sourced from a global supply chain unless "last mile" delivery remains intact. If faraway production facilities, farms, warehouses, trains, trucks, and power plants break down, eventually Governor Noem's constituents will feel it. People seem to intuit the local impact of a global crisis, and the reality that the greater world is not coming to save them. South Dakotans are entitled to think locally, out of self-preservation, in this crisis.

So are Japanese, Singaporeans, South Korean, and Swedes, for that matter. There is no UN agreement or statement at work concerning the pandemic, nor any universally agreed-upon supranational guidelines. International bodies such as the World Health Organization have been unable to project authority during the crisis, much less gain international compliance with their shifting recommendations. Countries around the world have implemented a hodgepodge of policies, and they've done so unilaterally. China brutally locked down its Hubei Province, while Sweden chooses to keep public life largely unaffected, with virtually no quarantines or business shutdowns. Many countries chose an intermediate path.

In Europe, the 1985 Schengen Area Agreement allowing open travel between twenty-six European countries has broken down due to the virus, with Germany, France, Spain, Austria, Switzerland, and others closing off borders with armed guards. In a crisis, it turns out a German or French passport really is not a "European" passport after all. Nationalities and citizenship, the bane of political globalists, exist. Whether this fact of life is inherently illiberal depends both on one's perspective and how various nations act internally under duress. Is Germany too trenchant in its response to the virus and Sweden too liberal? Who's to say?

The calculation becomes more and more difficult at scale, moving from the local to regional to national to international to global level. Crises remind us exactly why local matters.

This is exactly what we should expect, and want, in a pandemic: competing visions as to the severity and scope of the problem, differing localized approaches, experimental treatments, and nimble entrepreneurial provision of resources and supplies.

To an extent, there will be scoreboard. Some countries and some US states will fare better than others. But questions about top-down control from Washington, DC, or beyond will not go away. Federal agencies such as the Centers for Disease Control and Prevention have looked foolish and impotent throughout this crisis, as has the Trump administration's infectious disease expert Dr. Fauci. If in hindsight cheap antimalarial drugs and antibiotics prove to be effective treatments, the entire narrative of ventilators and lockdowns will appear foolish and destructive.

Yes, there will be accusations, recriminations, and calls for more bureaucracy and more regulations. The political class will gain; the American people will lose. But there is a silver lining as our already dangerously polarized country begins to understand more deeply how South Dakota really isn't New York City at all—and question why that same political class wants one set of rules for 330 million people. After all, if Brooklyn and Sioux Falls don't need the same policy on coronavirus, what about taxes, guns, abortion, climate change, and everything else?

Jeff Deist is president of the Mises Institute. He previously worked as chief of staff to Congressman Ron Paul, and as an attorney for private equity clients.

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Thirteenth 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 13: Creating Your Own Banking System through Dividend-Paying Whole Life Insurance (continued)

Content: Page 23-24 *Becoming Your Own Banker Fifth Edition*

Now, let's go back to our scene on John Doe's policy – he has had it for a few years and the Directors of the company ask the accountants, "How did we do on John's policy this year?" They say, "We collected \$1.10 but, after calculating all the earnings and expenses we found that it took only 80 cents to deliver the promised death benefit in the future." This means that the Directors can make a decision with 30 cents. There is no way that they can calculate whether this was a good year or not and to be prudent, they put .025 cents in a "contingency fund" (this does not show up in cash values) and distribute .275 cents as a dividend.

Most people have the impression that this dividend is an income-taxable event. It is not really a dividend in the current sense of the word. It is a "return of capital" and it is not taxable until the amount withdrawn exceeds the cost basis, i.e. the amount put in. If this dividend is used to purchase additional paid-up insurance, what you have is an ever-increasing, income tax-deferred accumulation of wealth. It is only limited by your imagination.

These dividends can get to be very significant over a long period of time. In 1959 I bought a policy from a major insurance company and the annual dividend is now over eight times the annual premium. It would be even larger had I not used the dividends to reduce the premium during the first fifteen years of the policy. I should have been using them to buy additional paid-up insurance during that time. These things are just not adequately explained by life insurance folks because of the limited understanding of their home office personnel. A tragedy!

So far, this is a pretty simple, straightforward business. The complication is in the perception of it by the general public. We all see things through a filter of prior understanding – and that filter is awfully cloudy as it relates to life insurance!

Life insurance agents are taught to help clients calculate their human life value, (the now value of their future earnings, less their personal upkeep. This is their value to family and others that are closely associated) and insure for that figure. It really is a quite nebulous concept because there are so many variables that change with time. Once a figure is agreed upon, the agent shows “how little it will take in premium for my company to insure that amount.” This premium figure could be as high as 15% of income, after taxes.

My word! If you will take an honest look at what the average young man is doing – paying over 35% of every dollar of after-tax income to interest alone (see p. 19 in the book) – it should be obvious that his need for finance during his lifetime is much greater than his need for life insurance protection. If he will solve for his need for finance through dividend-paying life insurance, he will automatically end up with more life insurance than in any other concept and he will recover all the interest he is now paying to someone else.

But this almost never occurs because of the “cloudy filter” implanted by financial geniuses that “life insurance is a poor place to store money.” What a limited outlook of just what is going on in the banking world! Again, if you know what is happening, you’ll know what to do.

So, the typical young man puts \$50.00 per month into life insurance premiums and complains about it. Then he goes down to an automobile dealer, makes a purchase, and gets a loan from a finance company to pay for it. Remember, there is only one pool of money out there in the world. The fact that a number of organizations and individuals are managing a portion of that pool is incidental. It is even more specific when it comes to car financing. I have never seen a monthly list of investments of a dozen life insurance companies that did not include finance companies as a place where they have loaned blocks of money. The finance companies simply buy blocks of money, and retail it to consumers after adding a fee for their work.

So, this young man pays \$260.00 per month for 48 months for his \$10,550 car loan. He repeats this

process, every four years, because that’s the way his peers are doing it. If he would take a deeper look, he might notice that he is paying \$50.00 per month into a pool of money (the life insurance policy) and paying \$260.00 per month to an intermediary (the finance company) who got the money from the same pool. Furthermore, he complains about the premium he pays but thinks nothing of the much larger amount he pays the car finance company. Strange, isn’t it?

We learn how to recapture all this money in lesson 14.

Take control of your financial world by

Becoming Your Own Banker

Find a Practitioner Near You

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

- [Brian Slabaugh, Syracuse, Indiana](#)
- [Kyle Davis, Orlando, Florida](#)
- [Scott Chapman, Sandersville, Georgia](#)
- [Alan Blecker, Green Valley, Arizona](#)
- [Scott Ford, Hagerstown, Maryland](#)
- [Vijay Khetarpal, Tysons Corner, Virginia](#)

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.