How Mutual Insurance Holding Companies Really Work

by L. Carlos Lara

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A mutual insurance company is an insurer that is owned 100% by its policyholders. Policyholders in a mutual are “contractual creditors” of the assets of the company. This means that a policyholder has ownership, membership, and contractual rights vested to them by state law. When a mutual insurance company demutualizes it converts completely to a stock company owned by shareholders. When this happens it loses its mutuality. A mutual insurance holding company (MIHC) is something altogether different—it’s a hybrid of sorts. It is not fully a mutual because the insurance company actually becomes a stock company too, but because of the holding company feature, it is able to retain its mutuality. The policyholder’s ownership, membership, and contractual rights are all still there in the MIHC structure, but they are now separated within the new “split” company. This makes the MIHC construction one of the most creative ever conceived. In this brief article we are going to discuss this interesting and somewhat complex financial edifice by examining the basics of the conversion steps more closely. There is much we can all learn about this rarely discussed topic and whether you are a financial professional or simply a policyholder, you need to know this information. If you practice IBC (Infinite Banking Concept) is of utmost importance.

Background

“The financial services industry changed dramatically in 1999 with the enactment of the Financial Services Modernization Act (also know as the Gramm-Leach-Bliley Act) by eliminating many of the barriers that separated banking, investments, and insurance. These barriers were originally put in place shortly after the Great Depression. But this new deregulation law set in motion a frenzy of mergers, acquisitions, and initial public offerings (IPOs) that would result in a conglomeration of financial service giants. Ironically, much of this merger and acquisition activity occurred in the 1980s and ‘90s long before this law was passed. Federal and state regulators had already been pushing for deregulation of these institutions for quite some time. But it was the Federal Reserve’s new interpretation of certain provisions of the Glass-Steagall Act of 1933 and the Bank Holding Act of 1956 that allowed banks and investment companies to begin entering into affiliated securities activities in the 1970s. Soon thereafter the insurance companies also followed suit. By the time the deregulation law became official, many commentators argued that Glass-Steagall was already dead. In any event, the Modernization Act of 1999 opened the door to massive consolidation of financial institutions at a much more rapid rate. Some of these mergers were the largest on record. The result of all this merger-acquisition mania created 8 banks controlling 41.5 percent of the country’s assets and the concentration of more than 40 percent of the life insurance industry’s premiums within the top 10 life insurers. These behemoths cross-sold all kinds of financial products with tremendous marketing synergy. Due to this significant economic change, one institution in particular came under immense financial pressure — the mutual life insurance company.

“Mutual insurers faced growing competition and the threat of acquisition from these emerging financial conglomerates. Adding to this pressure was foreign...
insurers’ growing interest in strategically acquiring insurers in the U.S. — Additionally, the shift in consumer demand away from traditional protection products and toward investment-oriented products left mutual insurers at a disadvantage.”

State of the Life Insurance Industry
CIPR Study-August 2013

In 1965 there were approximately 150 mutual insurance companies in the United States. By 1998 a Society of Actuaries New York Annual Meeting Report (October 18-21, 1998) confirmed only 80 mutual insurance companies in existence. More recently (November 2013), the authors of the LMR conducted their own independent research and could find no more than 13 true mutual companies remaining. Some of the reduction is due to a complete demutualization, which includes fifteen major life carriers such as Equitable, UNUM, Royal Maccabee’s, MONY, Prudential, John Hancock and the industry’s largest, Metropolitan Life Insurance Company, which took that route in the 1990s. On the other hand, according to the same August 2013 CIPR Study, 74% of mutual insurer reorganizations performed between 1997 and 2001 were done using the MIHC model as opposed to a complete demutualization. Consequently, the LMR count for all life insurance companies still claiming mutuality (true mutual plus mutual holding companies) is 34.

One principal reason for this increasing trend in this method of mutual reorganization is that the MIHC structure provides the insurer the means to recover from financial setback through the sale of stock if needed, without abandoning their mutuality, which is unavoidable with a complete demutualization.

The first mutual insurance holding company (MIHC) statute was passed in Iowa in 1995. From this we gather that mutual insurance holding companies are not exactly new corporate creatures. In the 18 years since their ascent in the industry most states now have this legal reorganization option on their books. New York State, which had been a holdout, finally just ten days ago enacted a law (November 2013) to allow insurance carriers with less than $10 billion in assets to reorganize in a mutual holding company structure.

Since there are several carriers fitting this profile domiciled in New York we may again see a change very soon in the mutual life insurance industry’s landscape.

To get a visual of the conversion process from a mutual to a mutual insurance holding company (MIHC) take a moment to study Diagram A. Notice in particular that the mutual starts out as one entity and splits into several components. When reorganizing from a mutual to a MIHC you are transforming the life insurance company from a mutual to a stock company complete with new stock incorporation documents and becomes a downstream company from the MIHC.
Ownership, Membership, and Policy Rights

To gain insight on how the MIHC is able to retain its mutuality notice carefully how the newly split company separates these important characteristics. The ownership and membership rights (these are the rights that allow the policyholder to vote for the board of directors, whether to demutualize or not, or for a merger) move and subsequent reside in the MIHC. The policy contractual rights (these are the rights found in the policy itself and written out in the policy contract) go entirely to the stock company. If you started out as a policyholder of the original mutual company at conversion you would become a policyholder of the stock company, but simultaneously you would also become an owner and member of the MIHC. What a great way to—have your cake and eat it too.

What is so crucial in this entire set-up is that the MIHC must at all times retain 51% of the “voting control” of the downstream life insurance stock company. This element is a legal prerequisite that is strictly enforced by state regulators. The language on the state books is very specific and makes it clear that it is—“majority voting control.” At first glance it’s easy to think that this fifty-one percent is all about favoring policyholders, but from the view of management that majority control is more akin to “takeover protection.” If you are a small mutual and you demutualize, the chances of being gobbled up by a conglomerate increase a hundredfold. So in effect this 51% keeps them from becoming a takeover target. Nobody can own a MIHC and nobody can take one over simply because it is controlled by the policyholders. So in effect this mandatory majority voting control does serve dual important purposes.

Although the MIHC, unlike a mutual, is able to file for an IPO (initial public offering) this is not always exercised. It can issue shares of stock of the life insurance company itself, or it can do it through the Intermediate holding company we see illustrated in Diagram A. Like the MIHC, the “intermediate holding company” is also a general-purpose corporation. Typically if shares are offered to the public it will be done from this intermediate entity with money flowing in and out of here. More importantly, if the IPO route is chosen, state regulators require that in fairness to policyholders a “closed block” must be established prior to the IPO. None of the closed block assets may be transferred to the shareholders and the total dividends distributed to the policies inside the closed block are ultimately determined by its experience rather than the discretion of management. Furthermore, these closed blocks tend to be very long-term in duration, up to 100 years or longer. Obviously, this is a critically important piece of the MIHC structure that we must all know about. In Part II of this LMR series we will walk through the various aspects of this very important responsibility.

Conclusion

Competition has heightened in the financial services industry, margins have tightened, and the demand for capital has increased. Along with this, the globalization of financial services has brought about significant changes to the insurance sector and especially to the mutual life company. Although the MIHC infrastructure is not new, it is certainly a topic that is rarely discussed by insurance company personnel, financial professionals, and life insurance agents.

It should come as no surprise that this is so. In reality many financial professionals may be unknowingly selling or possibly own policies they think are from a mutual company when they are actually issued by a mutual holding company. Obviously, members of the general public would not even know where to begin the discussion, yet we owe it to them to keep them fully informed especially if they are practicing IBC.

Though we are fast approaching the last vestiges of the great mutual of long ago, we should be fully cognizant of the fact that we are in mid-stream of a developing new and more flexible mutual device with greater adaptability to our changing economic environment. It’s a good thing Nelson Nash said you could still practice IBC with some stock companies because many of us are and it still works great. In view of these newer developments, our chief concern is to continue to provide superior education to all of our Practitioners and their clients because at the
end of the day, it is the public who is the lifeblood of the insurance industry. Give them knowledgeable professionals to work with and the public will respond with continued support of the life insurance industry for many more centuries to come.

You can find qualified professionals here: http://www.infinitebanking.org/finder/ or wherever you see this important seal of authorization:

References

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Why Government Solutions Usually End in Inflation
by Ludwig von Mises

An essential element of the “unorthodox” doctrines, advanced both by all socialists and by all interventionists, is that the recurrence of depressions is a phenomenon inherent in the very operation, of the market economy. But while the socialists contend that only the substitution of socialism for capitalism can eradicate the evil, the interventionists ascribe to the government the power to correct the operation of the market economy in such a way as to bring about what they call “economic stability.” These interventionists would be right if their anti-depression plans were to aim at a radical abandonment of credit expansion policies. However, they reject this idea in advance. What they want is to expand credit more and more and to prevent depressions by the adoption of special “contra-cyclical” measures.

In the context of these plans the government appears as a deity that stands and works outside the orbit of human affairs, that is independent of the actions of its subjects, and has the power to interfere with these actions from without. It has at its disposal means and funds that are not provided by the people and can be freely used for whatever purposes the rulers are prepared to employ them for. What is needed to make the most beneficent use of this power is merely to follow the advice given by the experts.

The most advertised among these suggested remedies is contra-cyclical timing of public works and expenditure on public enterprises. The idea is not so new as its champions would have us believe. When depression came, in the past, public opinion always asked the government to embark upon public works in order to create jobs and to stop the drop in prices. But the problem is how to finance these public works. If the government taxes the citizens or borrows from them, it does not add anything to what the Keynesians call the aggregate amount of spending. It restricts the private citizen’s power to consume or to invest to the same extent that it increases its own. If, however,
the government resorts to the cherished inflationary methods of financing, it makes things worse, not better. It may thus delay for a short time the outbreak of the slump. But when the unavoidable payoff does come, the crisis is the heavier the longer the government has postponed it.

The interventionist experts are at a loss to grasp the real problems involved. As they see it, the main thing is “to plan public capital expenditure well in advance and to accumulate a shelf of fully worked out capital projects which can be put into operation at short notice.” This, they say, “is the right policy and one which we recommend all countries should adopt.” However, the problem is not to elaborate projects, but to provide the material means for their execution. The interventionists believe that this could be easily achieved by holding back government expenditure in the boom and increasing it when the depression comes.

Now, restriction of government expenditure may certainly be a good thing. But it does not provide the funds a government needs for a later expansion of its expenditure. An individual may conduct his affairs in this way. He may accumulate savings when his income is high and spend them later when his income drops. But it is different with a nation or all nations together. The treasury may hoard a considerable part of the lavish revenue from taxes which flows into the public exchequer as a result of the boom. As far and as long as it withholds these funds from circulation, its policy is really deflationary and contra-cyclical and may to this extent weaken the boom created by credit expansion. But when these funds are spent again, they alter the money relation and create a cash-induced tendency toward a drop in the monetary unit’s purchasing power. By no means can these funds provide the capital goods required for the execution of the shelved public works.

The fundamental error of the interventionists consists in the fact that they ignore the shortage of capital goods. In their eyes the depression is merely caused by a mysterious lack of the people’s propensity both to consume and to invest. While the only real problem is to produce more and to consume less in order to increase the stock of capital goods available, the interventionists want to increase both consumption and investment. They want the government to embark upon projects which are unprofitable precisely because the factors of production needed for their execution must be withdrawn from other lines of employment in which they would fulfill wants the satisfaction of which the consumers consider more urgent. They do not realize that such public works must considerably intensify the real evil, the shortage of capital goods.

One could, of course, think of another mode for the employment of the savings the government makes in the boom period. The treasury could invest its surplus in buying large stocks of all those materials which it with later, when the depression comes, need for the execution of the public works planned and of the consumers’ goods which those occupied in these public works will ask for. But if the authorities were to act in this way, they would considerably intensify the boom, accelerate the outbreak of the crisis, and make its consequences more serious.

All this talk about contra-cyclical government activities aims at one goal only, namely, to divert the public’s attention from cognizance of the real cause of the cyclical fluctuations of business. All governments are firmly committed to the policy of low interest rates, credit expansion, and inflation. When the unavoidable aftermath of these short-term policies appears, they know only of one remedy — to go on in inflationary ventures.


2. In dealing with the contracyclical policies the interventionists always refer to the alleged success of these policies in Sweden. It is true that public capital expenditure in Sweden was actually doubled between 1932 and 1939. But this was not the cause, but an effect, of Sweden’s prosperity in the thirties. This prosperity was entirely due to the rearmament of Germany. This Nazi policy increased the German demand for Swedish products on the one hand and restricted, on the other hand, German competition on the world market for those products which Sweden could supply. Thus Swedish exports increased from 1932 to 1938 (in thousands
of tons): iron ore from 2,219 to 12,485; pig iron from 31,047 to 92,980; ferro-alloys from 15,453 to 28,605; other kinds of iron and steel from 134,237 to 256,146; machinery from 46,230 to 70,605. The number of unemployed applying for relief was 114,000 in 1932 and 165,000 in 1933. It dropped, as soon as German rearmament came into full swing, to 115,000 in 1934, to 62,000 in 1935, and was 16,000 in 1938. The author of this “miracle” was not Keynes, but Hitler!

Comment by R. Nelson Nash — This is why it is so important for you to learn how to become your own banker through the teachings of the Nelson Nash Institute. There are thousands of people now that have learned how to secede from the system that has the entire world in its grip. It is a peaceful, stress-free way of life.

A Tribute to the Warehouse
by Jeffrey Tucker

Online commerce is trending toward 10 percent of all retail, and it is growing rapidly. We click and pay, and, if it’s not a digital good, the good arrives at our home a day or two later. Hardly anyone remembers “allow six to eight weeks for delivery.” Everything comes fast. And if it isn’t in stock, we are notified. When it is shipped, we are notified. We can track our packages online, following them stop by stop.

The goods go straight from the manufacturer to the warehouse and then to our homes, eliminating the display racks, store fronts, retail outlets, salespeople, and everything else in between those stages. The most unassuming stage — and the stage that is increasingly important in modern commerce — is that warehousing stage, where products rest and wait for consumer volition to awake them from their slumber.

The warehouse has been a feature of the commercial world since the most ancient times. Jesus even has a parable that involves a grain warehouser who amasses ever more grain without selling any and then finally dies. Yes, that’s how the story ends.

The warehouse in our times is assuming ever-greater importance. The globalization and digitization of commerce has turned the warehouse from a useful institution into the very heart of commercial life.

Awesome Technology

The technology that drives the warehouse has undergone upheaval over the last ten and even five years. Once it was all about faxes and typewriters. Now, web services in the cloud can connect warehouses around the world to a dozen different shippers and hundreds of retail websites, all communicating with each other in a fraction of a second.

The time between the end user’s purchase and the printing of the label on the box is down to minutes. It is entirely possible to order at 8 p.m. and receive the goods the next day, even without paying for the rush.

Despite this incredibly modern technology, the warehouse is a world as cloistered as a medieval convent. Its underlying purpose is not the salvation of souls in the afterlife but the betterment of mankind in this one.

Cities around the country have reported gigantic increases in the demand for warehouse space. The orders keep becoming ever more stunning: 10,000 square feet; 100,000 square feet; and even 650,000 square feet. Whole communities are emerging from coast to coast that consist of nothing but huge metal buildings with loading and unloading docks.

The same is happening in China, India, Malaysia, and Latin America. Formerly uninhabited spaces — warehouses tend to emerge in low-price areas — are being converted by the day.

Remarkably, most people will never enter a warehouse and never experience their strangely busy-but-contemplative environment, which is unlike any other on this earth.

Our Cathedrals

The lighting is lower than one might expect and peculiar because it exists in a giant windowless space sealed tightly on all sides. The only natural light one can see is from the dock for loading and unloading, a space that gives the otherwise directionless cavern a spatial orientation and purpose.

The ceilings are unnaturally elevated, with shelf after shelf soaring up to ominous heights. The
visual orientation is equally weighed vertically and horizontally, like an old European cathedral, and the employees are as comfortable navigating one direction as the other.

They can speed from one point to another as quickly as they can leap into the air on their specialized machines. Their digital charts might indicate a need for a pallet 150 feet up, and they will traverse the space and come back with their prize — it could weigh several thousand pounds — in what seems like seconds.

They do this without comment or even notice from anyone else. They are nonchalant about the feats that amaze visitors. Indeed, the employees in the warehouse do not talk without purpose. And when they do speak, they use a language that is entirely about their craft. It seems like a code, but they all understand each other. The volume of their voices is low, and they speak in quieter tones than one would expect.

The temperature varies based on the season, but the warehouse is tightly sealed on all sides but the dock. It can be bracingly cold in the winter, employees wearing heavy coats and gloves indoors — and uncomfortably warm in the summer — but always to a lesser degree than the world outside.

Nothing in the warehouse is designed to be beautiful, but the sheer utility of every physical thing in it creates its own beauty. Its orderliness — nothing is unaccounted for — conforms to one ancient definition of beauty itself.

And its cleanliness is also unexpected. Surely a space this gigantic, used only for storing things, would have its pockets of dust and grime. Not so. A white glove can touch anything in the best warehouse and come up sparkling white.

The noises one hears are almost entirely mechanical: beeps, hums, grinding conveyor belts, stamping machines, trucks coming and going. They can be random and loud; but for those who work there, nothing is startling. You begin to discern all movement within the space by the sounds alone, same as you can tell what people are doing in your own house by the noises they make.

What about the people who work here? There are permanent employees and temporary workers who specialize in helping out in high-volume seasons. There are bosses, owners, strongmen, accountants, managers, packers, and the inevitable geek who is running and managing software behind the scenes.

They stick to the task all day, but mingle very well socially during lunch and other break times, which come as regularly as prayer times in monastic life. During these times, they talk about anything but business. They revel in the differences in their eating habits, talk about movies, share tips on places for happy hour, and generally find commonalities in the usual joys and sufferings of daily life.

Then the clock signals that it is the time to begin the work again, and the place starts humming with the coordinated and orderly mechanism of machinery, software, and human effort: a dazzling integration of all forms of motion possible in this world.

Think of this: every item stored in a warehouse is seemingly idle in an economic sense, not currently employed in consumption or production. Everything is held here on the presumption that at some point someone will purchase it. This cannot be known for sure. It is a speculation, an entrepreneurial judgment that could be right or wrong.

**Imperfect Information**

If there were perfect information about the future, the warehouse wouldn’t exist at all. All goods would be manufactured on a need-be basis only, with no storage needed or necessary. Despite its stillness and orderly calm, then, the warehouse embodies a wild leap into the unknown — a physical monument to the human capacity to imagine a future we cannot see.

This isn’t a bug of the system. It is a feature. And it’s the same with banking institutions of old, which served a warehousing function as well. The money wasn’t idle, contrary to what the opponents of the gold standard and pushers of fractional-reserve banking said. Not at all. It was a service that came to terms
with the reality of uncertainty of the future.

No government mandates caused these warehouses to come into existence. In fact, we the consumers have caused this, not with direct demands but with subtle market signals derived from interpreting profitability spreadsheets.

Hayek would use the term “spontaneous order” here, but the warehouse puts the emphasis on order. They are a prime example of how a market operating on its own, with no one in particular in charge, can create these cells of coordination — symphonic exhibitions of productivity in the service of humanity.

Rooted deep in history and yet uniquely modern, the warehouse has emerged with its own culture, shape, and conventions, all created and shaped by market signaling and entrepreneurial insight.

This piece ran at Mises Canada

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Greenspan the Undertaker and His Countless Victims

by Douglas French

Emi and Glen Yamasaki were a smiling couple that waved at their neighbors in the Sun City Anthem neighborhood of Henderson. Other retirees who lived near them couldn’t believe the Yamasakis committed suicide by jumping from the top story of the Silverton Casino’s parking garage.

What neighbors didn’t know is the couple’s golden years were not so shiny. Having bought their home at the top of the market in 2005, they were likely underwater and were facing foreclosure and other money troubles. W.C. Varones’ “Greenspan’s Body Count” counts Mr. and Mrs. Yamasaki as victims 257 and 258.

“A decade after the peak of his diabolical, deliberately created housing bubble, the 21st century's most prolific serial killer is still killing,” writes Varones on his blog. “Less than a month after his most recent murder, Alan Greenspan has killed a married couple in Las Vegas.”

The Man Who Knew

Sebastian Mallaby describes Varones as a “vituperative blogger” in his book The Man Who Knew: The Life and Times of Alan Greenspan. However, the blog, which likely undercounts “mortgage-related suicides,” provides prescience to Ayn Rand’s nickname for Greenspan, “The Undertaker” – joining other nicknames such as “the Maestro” and “the Greatest Central Banker Ever.”

Of Mallaby’s very readable account of his life, the Maestro himself called the book “not always positive, but accurate.” Mallaby believes his subject knew all about the bubbles the Fed was creating but didn’t act. But, of course, the market did act, harshly. It’s Mallaby’s view that Greenspan could have pricked these asset bubbles and somehow let the air out slowly, making it painless for everyone.

So why didn’t he? The “greatest central banker in history” insisted in hindsight that bubbles were impossible to detect until it was too late.

No doubt Murray Rothbard is somewhere laughing. Mallaby mentions Greenspan’s devotion to Ayn Rand, laissez-faire capitalism, and the gold standard often. But, as Rothbard wrote, “For Greenspan, laissez-faire is not a lodestar, a standard, and a guide by which to set one's course; instead, it is simply a curiosity kept in the closet, totally divorced from his concrete policy conclusions.”

The shy undertaker was not a swashbuckling Randian hero or libertarian firebrand, but a passive-aggressive
political manipulator. However, those inside the Fed, like Alan Blinder, gushed as Greenspan was retiring, “Financial markets now view Chairman Greenspan’s infallibility more or less as the Chinese once viewed Chairman Mao’s” – an interesting and rather backhanded compliment from an economist who occasionally butted heads with his boss.

In either case, history would say otherwise. Other than New York, Greenspan never saw a bailout he didn’t support or a bubble he couldn’t create. After all, it kept both Wall Street and the political class happy – both here and abroad. The man who grew up without a father and with an overbearing, doting mother wanted to gain powerful people’s approval. He hated confrontation.

If Greenspan was familiar with Austrian Business Cycle Theory, and he should have been, he’d have known crashes and recessions are needed to correct the malinvestments created by central bank monetary interference. To paper over crashes and bail out losers is to destroy precious capital by keeping it in the hands of those who waste it.

However, Greenspan was a Keynesian forecaster who, as Rothbard explains, had no interest in Austrian economics or economic theory at all. Murray, who had met Greenspan, admitted he didn’t understand how Greenspan rose to power. “He’s the least charismatic person I’ve ever seen,” Rothbard said. “He has the persuasiveness of a dead mackerel.”

Most libertarians are familiar with Greenspan’s 1966 article "Gold and Economic Freedom," an attack on fiat money and central banking. Years later, Congressman Ron Paul asked the Fed Chair to sign an original copy. As Greenspan signed, Paul asked him if he still believed what he wrote in that essay some 40 years before. “Greenspan – enigmatic as ever – responded that he ‘wouldn’t change a single word,’” writes Michael Kosares.

But to read Mallaby, Greenspan was not so much an enigma as much as he was duplicitous. For instance, President Reagan was very interested in returning to a gold standard and mentioned it often. A Gold Commission was even formed. Meanwhile, Greenspan “feigned empathy with his adversaries and played skillfully for time, morphing from an ardent advocate of gold into its most devious opponent,” writes Mallaby.

The Two Exclusions

In the nearly 700 pages of text, two things are strangely not mentioned: the Enron Prize for Distinguished Public Service, which Greenspan accepted just a few days after Enron filed paperwork admitting to having fabricated its financial statements for five years, and his dissertation.

Greenspan’s mentor was Arthur Burns, who happened to chair Murray Rothbard’s dissertation at Columbia. The fruit of Rothbard’s work was the seminal Panic of 1819. Meanwhile, “Alan,” Princeton economist Burton Malkiel gushed, “is one of the smartest people I’ve ever known in my life,” but didn’t manage to file his dissertation until 1977 at New York University, where boyhood friend Bob Kavesh urged him to finish his Ph.D.

Jim McTague, a reporter for Barron’s, secured a copy in 2008. As excited as McTague was to get his hands on it, there wasn’t much to it. It was merely a collection of articles totaling 180 pages. “Two chapters that had been published as articles in the American Statistical Association's annual proceedings contain several pages of algebraic equations that, frankly, made our head ache,” wrote McTague.

Paul Wachtel, an NYU economics professor who was on Greenspan's dissertation committee, defends Greenspan’s work, claiming, “the chapter written by Greenspan in 1959 on investment risk and stock prices anticipated by 10 years the Q ratio developed in 1969 by the late James Tobin,” who would become a Nobel laureate.

Mallaby sprinkles his narrative with anecdotes that make The Man Who Knew very fun to read for those of us who lived through the roller coaster Greenspan economy and appreciate political skullduggery á la House of Cards. Although, with the way the author describes Alan and wife (finally) Andrea Mitchell, you’d think they were as glamorous as Brad and
Angelina.

And who knew there was a “Manley Put” supporting stock market prices before there was the famous “Greenspan Put”? Perhaps ironically, the Manuel (“Manley”) H. Johnson Center For Political Economy at Troy University has one of the most free-market oriented economics programs in the country.

I had the occasion to meet Manley before a Troy football game and we traded stories about Rothbard. Johnson was a 38-year old vice chair at the Fed when Greenspan took over. He is described by Mallaby to have “shocking youthfulness” and “the courtly charm of a Southerner.” I can verify that he still does.

The idea that the Federal Reserve is somehow independent of the executive branch is quashed by the author. Greenspan, like his mentor Burns, was eager to do the President’s bidding. George W. Bush’s first meeting as President was with the Fed Chair. Greenspan made a trip to Arkansas to meet with President-elect Clinton.

**The Man Who Bailed**

Ultimately, Greenspan’s gift was timing. Janet Yellen, then the president of the San Francisco Fed, is quoted by Mallaby as saying on Greenspan’s last day in January 2006 that “it’s fitting for Chairman Greenspan to leave office with the economy in such solid shape.”

As it turned out, he left just in time: the bubble was a year away from popping and Ben Bernanke would step in to engineer the bailout of all bailouts, prolonging the fallout to this day. Meanwhile, Greenspan earned $250,000 by speaking to a “handful of Lehman’s hedge-fund clients,” just a week after leaving his Fed post. (Lehman would file for bankruptcy a year and a half later.) Then work began on his memoir, aptly entitled *The Age of Turbulence*, for which Greenspan was paid $8 million.

The man who knew is actually the man who bailed out: countries, companies, and finally himself. Ayn Rand always had her doubts about Greenspan, and would frequently ask her associates, “Do you think Alan might basically be a social climber?”

To this day, Greenspan is still in high demand as a keynote speaker. He is represented by the Washington Speakers Bureau which claims it is “Connecting You to the World’s Greatest Minds.” He is addressing the Private Equity International CFOs and COOs Forum this month.

Meanwhile, facing a retirement drowning in debt, Emi and Glen Yamasaki were 63 when they took their lives. The Maestro, Undertaker, or Greatest Central Banker Ever will reach the ripe old age of 91 in March, long outliving the victims of the bubble economy he created, and sadly reaping riches from his status and mythology.

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Comment by R. Nelson Nash — Yes, “Undertaker“ is the correct classification of Mr. Greenspan.

**The US Navy: A History of Waste and Corruption**

01/24/2017 Matthew McCaffrey

The growth of US military power has rarely, if ever, been the result of legitimate concerns about defensive strategy, let alone about the national welfare. Instead, it’s more often a consequence of a waste, corruption, and imperial ambition that together have produced the modern military-industrial complex. This history receives some well-deserved attention in Paul Pedisich’s book *Congress Buys a Navy: Politics, Economics, and the Rise of American Naval Power, 1881-1921*, which offers an in-depth look at the history of Congressional involvement with the US Navy. I’ve written a more general review of the book for those interested (here), but in this post I want to focus on some of the economic implications of US naval history over these four decades.

The main emphasis of the book is on a series of
Congressional battles over appropriations for the Navy, and how these disputes influenced its growth and change. This process, Pedisich argues, was not driven by strategic questions of national security, but by a wide range of political interests. Pedisich provides a wealth of information about Congressional voting blocs and committees, as well as the personal and professional ties between politicians, the Navy, and the war industries. These consisted most often of conventional rent-seeking: members of Congress wanted appropriations channelled to their own constituencies, and the Navy’s budget provided an excellent opportunity for those states that stood to gain from the Congressional spoils system (pp. 28-29, and throughout).

Shockingly, the Navy consistently recommended its own expansion, and eventually focused on becoming the dominant seagoing force in the world. For a long time, however, this goal remained out of reach. Typically, its suggested appropriations far outstripped what Congress was willing to allow, and competing factions in the Legislative Branch fought viciously for control over funding decisions. Coastal states lobbied for shipyards and other naval installations, while landlocked states tended to favor other public spending programs that would benefit them more directly.

However, political ambitions for the Navy were not limited to narrow pork politics: they also had global implications. Throughout the decades leading up to the First World War, the US began to cast its eye on numerous foreign territories with a view to building an empire. Naval experts theorized that this required a strong fleet (p. 77), but the concept of a more powerful Navy was a tough sell for the public. It was especially difficult in peacetime, when there were no obvious threats to US commercial or political interests to justify building a Navy with an international reach. To get the Navy it wanted, Congress opted for deception: for years it concealed its true intentions by funding the construction of long-range armored battleships while referring to them in official reports as “coastline” vessels, implying defensive uses even though they were offensive vessels (pp. 80, 131).

Eventually this trick became unnecessary, and the Navy grew more rapidly during the Progressive Era. This was especially the case during periods of crisis and war, when government power increased significantly across many margins through what Robert Higgs refers to as the “ratchet effect.” The Navy’s growth was justified to the public on grounds of national security and the need to protect international commerce. Yet the real goal of expansion was to keep up with the (British and French) Joneses and thereby establish the US as a global, imperial naval power (pp. 75-76, 79).

Pedisich shows in some detail that Congressional politics was responsible for the organization, composition, and growth of the Navy more than any strategic considerations. But the message we should draw is not that an inept Congress disrupted rational strategic planning by the Navy. The underlying problem is that both Congress and the Navy lacked the ability to allocate resources to their most socially valuable ends because political and military organizations suffer from the same economic calculation problems that socialist governments do (see here, here, and here).

The title of the book notwithstanding, Pedisich doesn’t devote much space to discussing economics. But many of the examples he studies do hint at the calculation problems that faced Congress and the Navy. Basically, the same story played out year after year from 1881 to 1921. Each year, the Navy would request funding specific numbers of specific types of ships, and Congress would authorize a different, smaller number of ships of other classes. It’s clear from Pedisich’s narrative that both sides adjusted their recommendations to suit their momentary political needs.

This can be seen most clearly in the frequent debates over funding for steel plate. Rather than pay a market price for steel, Congress insisted on setting the price it was willing to pay. At the same time, monopolist steel contractors tried to hold prices at artificially high levels. Without genuine market prices to rely on, neither side was able to determine a price for steel that actually reflected its value in alternative uses. The
result was years of bickering about what the price of steel should be and attempts to determine the “actual cost” of its production (pp. 100-101, 103, 126-127). But of course, such costs are revealed only through economic calculation, not political negotiations.

In an effort to make its operations more efficient, the Navy even introduced “scientific management” to its shipyards (pp. 190, 193). Basically, this involved studies of the technological efficiency of different workers and production methods in order to find which ones were most useful. This method too ended in failure. The reason is that management and technical efficiency are not substitutes for market entrepreneurship. They are merely, in Mises’s words, “playing market.”

Whenever economists explain military decision-making with reference to economic calculation, someone is sure to object that this criticism is too harsh. Instead, good military strategists, unhampered by an inefficient legislature, can make wise decisions about the resources they need to complete their objectives. The trouble with this objection is that it misses the point of the calculation problem, which is not about logistics or battlefield tactics, but about production.

Underlying the practical decisions of the military are an enormous array of economic questions: where should naval shipyards be located? How many ships should be built? What should their capabilities be? Should they be made of steel alloy or some other material? Which combinations of raw materials should be used? How much is too much to spend on a new warship? There’s no way to answer these questions without understanding the true cost of each decision. And the only way to do that is to make the different choices commensurable by establishing a money price for them.

The conclusion we can draw from this is simple, but it can’t be emphasized enough: when entrepreneurs risk their own necks in the market, they help to create a flourishing commercial society. But when politicians and bureaucrats play market without bearing the consequences, they create a bloated and destructive network of economic privilege that begins with bribes and ends with bombs.

Note: The views expressed on Mises.org are not necessarily those of the Mises Institute.

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**Thomas Jefferson Warned Us about Social Security**

by Brenton Smith

Many have tried, but few have been as effective as Thomas Jefferson at criticizing Social Security. In a 1798 letter, Jefferson, who died more than a century before Social Security reached the public’s conscience, laid out one of the most compelling arguments ever written against the Social Security program as it exists today.

The piece wasn't a rant about the size of government or a philosophical look at fairness and the rights of man. His letter dealt with the consequences of enabling one generation to lay debts upon another. In sum, he predicted that eventually a generation would, “eat up the usufruct [the right to enjoy the use and advantages of another's property short of the destruction of its substance] of the lands for several generations to come.”

That sounds a lot like Social Security, which has a shortfall of roughly $32 trillion. That figure means that the program’s remedy would require nearly double the nation's GDP or “the usufruct of the lands.” As a result, our politicians are struggling to explain this breathtaking financial gap and to propose a way to fill it.

We nominally cling to the notion that the money was misused or that unforeseen demographic shifts have somehow complicated the best laid politics of mice and men. In other words, hidden hobgoblins menaced the system far beyond the control of our current politicians, who really hope to escape any responsibility for the cost of keeping the promises to seniors.

Jefferson said nothing about demographics or
financial malfeasance. He said that the public council—Congress—would place the self-interest of re-election over the long-term interests of the general public. In just this fashion, Congress ‘expanded’ Social Security for decades without any consideration for how to pay for it, because voters love benefits, but hate the costs.

The Path to Crisis

Over decades, Congress larded benefits upon voters for spouses, children, ex-spouses, COLAs, and survivors without providing an incremental cost. The Social Security system sold dollars for dimes for decades, and we wonder how such a concept could possibly fail.

The pathway for the approaching crisis was created in 1983 with short-sighted legislation, which was made necessary by an imminent crisis created by even earlier lapses in legislative judgement. For 80 years, Congress has created deals in which their children will pay the taxes that voters won’t and accept the benefit cuts that no one would even discuss.

The crisis coming in Social Security will manifest Jefferson’s “lands holden in tail.” In 1983, the nation insulated those who were 45 and older from the consequence of the dollars for dimes math of the system. By 2005, we nominally talked about protecting those 55 and older. Now current law cannot protect those in retirement even by its most favorable estimates.

We are at the Rubicon with these promises. In 2016, three separate proposals sought to protect those in retirement by targeting the same audience whose benefits were cut in 1983. It is not possible to kick the can down the road anymore.

Jefferson’s letter serves as a somber presage for politicians promising to keep Social Security’s promises to seniors. He reasoned that “the earth belongs in usufruct to the living; that the dead have neither powers nor rights over it.” In other words, today’s workers cannot be bound by the promises of a past Congress, much less the promises of past promises.

Clearly, we are not there yet, but Jefferson’s reasoning implies that one day a politician will emerge who will serve the new generation. At some point, younger Americans will elect a Francis Underwood, who in turn will tell seniors, “We owe you nothing.”

And Thomas Jefferson would not only agree, but say, I told you so.

This article was originally published on FEE.org

Brenton Smith is the founder of Fix Social Security Now and writes on the issue of Social Security reform, appearing in national media like Forbes, Marketwatch, FoxBusiness, and FEE.org.

VISION

By Leonard E. Read

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

Chapter 20

EXPLORE AND EXPLORE AND EXPLORE!

From 1842:

Be not chided nor flattered out of your position of perpetual inquiry. Neither dogmatize nor accept another’s dogmatism.

-EMERSON

The pursuit of truth demands constant explorations into the unknown. The firm statement by the Sage of Concord appears to provide a solid foundation for my title. The aim in this essay is to diagnose and spell out these thoughts in order better to partake of advice that appears to be unusually wise.

We are surrounded by mystery, and to dramatize the unknown here is a true story. During the late fifties I was a contestant in the season's most important golf match at my club, St. Andrews. I was in the sandtrap on the 16th and, unless down in two, no chance to win. The trap shot was on the green some 20 feet from the pin—and all uphill. My putt came to a dead stop 5 inches from the cup. And then, as if an unseen hand
were on my side, it rolled *uphill* and into the cup! An optical illusion? That would have been my conclusion had not the two caddies and my three competitors exclaimed in unison, “That ball had stopped!”

Later on I told a friend of this miracle, and he exclaimed, in disbelief, “That defies the law of gravitation.” I replied, “There are laws at work in this universe that neither you nor anyone else ever heard about.”

I have had several experiences just as miraculous as this one, and I know of a few other people who have been startled by events equally mysterious. One may assume that millions of individuals, since the dawn of human consciousness, have also experienced the unbelievable. Further, it is more than likely that no two of these phenomena have been identical. And in the folklore of all races credit has been given to medicine men, witch doctors, angels and all sorts of miracle workers. The leprechauns are a case in point. The ancients of Ireland believed that these elves conferred all the fabulous treasures and miracles that have graced many individuals during the history of man.

To me, the above emphasizes another of Emerson's thoughts: “We lie in the lap of *immense intelligence*”—the Infinite Unknown. We are rocked in the cradles of Creation. Bluntly, relative to the Infinite Unknown, we are no more than “babes in the woods”—no exceptions!

As Cervantes wrote: “The road is always better than the inn.” Unfortunately, most people settle on fame or fortune or power as the “inn,” and having arrived at these inglorious ends call it quits. They miss the whole point of earthly existence. Realistically, there is no inn, no ultimate point of arrival. It is the road, now and forever-each of us a babe in Creation's cradle probing Infinity, finding one's way. All that matters are the lessons learned along the way.

If the above thoughts be valid, then it is obvious that the spirit of inquiry is the road we mortals should travel, this road stretching endlessly onward and upward. Revelation will be the reward: all the truth one may come by and such virtues as charity, intelligence, justice, reverence, humility, love and integrity will brighten the ascent.

Why do so many put up at the inn utterly unaware of the road? It is obvious that no one knows all the answers, which is why Emerson's “be not chided nor flattered out of your position of perpetual inquiry” is such excellent counsel. To chide and to flatter are contrasting ways of treating others, and they both have a deadening effect.

Chide: “To speak reprovingly to; to find fault with; blame; rebuke; scold.”

A person who is constantly chided or nagged-unless he has the power to disregard it—is given a life sentence. He is reduced to the status of a *Dummkopf* or a nincompoop. He loses sight of the road stretching endlessly onward and upward. For him it's the imp-period! Poor soul!

Flatter: “To praise too much, untruly or insincerely; gratify the vanity of.”

Unless one has the wit to disregard such false assessments, flattery, no less than chiding, is another life sentence—growth in awareness, perception, consciousness at an end. Babes in the woods regarding themselves as great men! They are bedded down in that dismal inn which has no windows overlooking the road which leads endlessly onward and upward.

Living by Emerson's “Neither dogmatize nor accept another's dogmatism” is assuredly the way to avoid the afflictions of both chiding and flattery. Dogmatism is defined as a “statement of a belief as if it were an established fact; positiveness when unwarranted or arrogant.”

Dogmatizing is one of mankind's major curses. Those who so behave fall into the category of know-it-alls—arrogant, indeed! There is no spirit of inquiry among these millions—in or out of office—who “know” that whatever they believe is “established fact.” What they see is all there is! Mysteries? There are none!

Having experienced several mysteries myself, and aware that there are millions times millions unknown to me, the dogmatic pose is an absurdity. The result?
1. No dogmatism directed at others.
2. All dogmatizing by others disregarded.
3. The belief that everyone should be privileged to act creatively as he or she pleases.
4. The spirit of inquiry a leading mission in life.

Finally, how best may one be inspired to pursue the spirit of inquiry? The “second coming” idea is what most appeals to me. Jesus of Nazareth has been presented to mankind as the Perfect Exemplar. And it is predicted that his return will some day grace humanity—the second coming!

Admittedly, my view of this is unorthodox, held by only a few. Here it is: The “second coming” is to be manifested among us mortals. Briefly, we are to strive as best we can and approach as nearly as possible—infinitesimal though it be—His Heavenly Exemplarity. Even supposing this to be an incorrect conclusion, is it not a mortal goal of the first order? Could any ambition better inspire the spirit of inquiry?

Let us, also, bring the second-coming aspiration to the human level. How? By seeking out those few individuals, past and present, who are steps ahead of ordinary mortals—oversouls, if you please—and strive to emulate their excellence. Perpetual inquiry, to repeat Emerson's goal, will be the reward. As examples, two others add their wisdom to his:

It is error only, and not truth, that shrinks from inquiry. — Thomas Paine

It is a shameful thing to be weary of inquiry when what we search for is excellence. — Cicero

Thanks to all you oversouls who light our way to the road stretching onward and upward! Explore and explore and explore!

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**Nelson’s Favorite Quotes**

A blind person asked St. Anthony: “Can there be anything worse than losing eye sight?” He replied: “Yes, losing your vision!” — Anonymous

“The history of all right movements has been in the first place the history of lonely souls, who, having heard the authentic voice of God, have stood alone or in small minorities.” (Morgan)

**Welcome the newest IBC Practitioners**

https://www.infinitebanking.org/finder/

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

- Dale Moffitt - Calgary, AB
- Jonathan Webster - Chandler, AZ
- Stephen Devlin - Vancouver, BC
- Franz Griswold - Dansville, NY
- Dwight Mitchell - Johnson City, TN
- Michael Sparks - Clarksville, TN
- Brad Zabadal - Bartlett, IL
- Justin Bauer - Cannon Falls, MN
- Eric O’Connor - Beaver, PA
- Terry Hellenbrand - Wauunakee, WI
- Michiel Laubscher - Newtown, PA
- Debra Lanford - Greer, SC

You can view the entire practitioner listing on our website using the Practitioner Finder.

IBC Practitioner’s have completed the IBC Practitioner’s Program and have passed the program exam to ensure that they possess a solid foundation in the theory and implementation of IBC, as well as an understanding of Austrian economics and its unique insights into our monetary and banking institutions. The IBC Practitioner has a broad base of knowledge to ensure a minimal level of competency in all of the areas a financial professional needs, in order to adequately discuss IBC with his or her clients.

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**Nelson’s Newly Added Book Recommendations**

https://infinitebanking.org/books/

_The Wars of the Roosevelts: The Ruthless Rise of America’s Greatest Political Family_ by William J. Mann

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