Confusing Capitalism with Fractional Reserve Banking

by Frank Hollenbeck on August 6, 2014

Today, capitalism is blamed for our current disastrous economic and financial situation and a history of incessant booms and busts. Support for capitalism is eroding worldwide. In a recent global poll, 25 percent (up 2 percent from 2009) of respondents viewed free enterprise as “fatally flawed and needs to be replaced.” The number of Spaniards who hold this view increased from 29 percent in 2009 to 42 percent, the highest amongst those polled. In Indonesia, the percentage went from 17 percent to 32 percent.

Most, if not all, booms and busts originate with excess credit creation from the financial sector. These respondents, incorrectly, assume that this financial system structured on fractural reserve banking is an integral part of capitalism. It isn’t. It is fraud and a violation of property rights, and should be treated as such.

In the past, we had deposit banks and loan banks. If you put your money in a deposit bank, the money was there to pay your rent and food expenses. It was safe. Loan banking was risky. You provided money to a loan bank knowing funds would be tied up for a period of time and that you were taking a risk of never seeing this money again. For this, you received interest to compensate for the risk taken and the value of time preference. Back then, bankers who took a deposit and turned it into a loan took the risk of shortly hanging from the town’s large oak tree.

During the early part of the nineteenth century, the deposit function and loan function were merged into a new entity called a commercial bank. Of course, very quickly these new commercial banks realized they could dip into deposits, essentially committing fraud, as a source of funding for loans. Governments soon realized that such fraudulent activity was a great way to finance government expenditures, and passed laws making this fraud legal. A key interpretation of law in the United Kingdom, Foley v. Hill, set precedence in the financial world for banking laws to follow:

_Foley v. Hill and Others, 1848:_

Money, when paid into a bank, ceases altogether to be the money of the principal; it is then the money of the banker, who is bound to an equivalent by paying a similar sum to that deposited with him when he is asked for it. ... The money placed in the custody of a banker is, to all intents and purposes, the money of the banker, to do with it as he pleases; he is guilty of no breach of trust in employing it; he is not answerable to the principal if he puts it into jeopardy, if he engages in a hazardous speculation; he is not bound to keep it or deal with it as the property of his principal; but he is, of course, answerable for the amount, because he has contracted, having received that money, to repay to the principal, when demanded, a sum equivalent to that paid into his hands.[1]

In other words, when you put your money in a bank it is no longer your money. The bank can do anything it wants with your money.
wants with it. It can go to the casino and play roulette. It is not fraud legally, and the only requirement for the bank is to run a Ponzi scheme, giving you the money deposited by someone else if they lost your money and you happen to come back asking for your money. This legalization of fraud is essentially one of the main reasons no one went to jail after the debacle of 2008.

The primary cause of the financial panics during the nineteenth century was this fraudulent nature of fractional reserve banking. It allowed banks to create excessive credit growth which led to boom and bust cycles. If credit, instead, grew as fast as slow moving savings, booms and bust cycles would be a thing of the past.

Critics of the gold standard, (namely, Krugman, et al.), usually point to these cycles as proof that it failed as a monetary system. They are confusing causation with association. The gold standard did not cause these financial panics. The real cause was fractional reserve banking that was grafted onto the gold standard. The gold standard, on the contrary, actually greatly limited the severity of these crises, by limiting the size of the money multiplier.

This is why in the early days of banking in the US, some wildcat bankers would establish themselves in the most inaccessible locations. This was to ensure that few would actually come and convert claims for gold into actual gold since banks had created claims that far exceeded the actual gold in their vaults. And, if by chance a depositor tried to convert his claims into gold, they would be treated as thieves, as though they were stealing the bank’s property by asking for their gold back.

The Federal Reserve System was created following the panics of 1903 and 1907 to counterbalance the negative impact of fractional reserve banking. One hundred years after its creation, the Fed can only be given a failing grade. Money is no longer a store of value, and the world has experienced two of its worst financial crises. Instead of a counterbalance, the central bank has fed and expanded the size of the beast. This was to be expected.

That global poll on capitalism also found that almost half (48 percent) of respondents felt that the problems of capitalism could be resolved with added regulations and reform. Janet Yellen also holds this view, and that regulation, not interest rates, should be the main tool to avoid another costly boom and bust in global finance. This is extremely naïve. We already have more compliance officers in banks than loan officers. Recent banking legislation, Dodd-Frank, and the Vickers and Liikanen reports will probably make the situation even worse. Banks will always be able to use new technologies and new financial instruments to stay one step ahead of the regulators. We continue to put bandages on a system that is rotten to the core. Banking in its current form is not capitalism. It is fraud and crony capitalism, kept afloat by ever-more desperate government interventions. It should be dismantled. Under a system of 100 percent reserves, loan banks (100 percent equity-financed investment trusts) would be like any other business and would not need any more regulation than that of the makers of potato chips.

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

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Notes

Comment by R. Nelson Nash – Warehouse your money in life insurance cash values. Life insurance companies cannot inflate the money supply. That is the message of The Infinite Banking Concept.
The State’s Worst Atrocity
By Llewellyn H. Rockwell, Jr.

August 2, 2014 “The lamps are going out all over Europe,” Sir Edward Grey famously said on the eve of World War I. “We shall not see them lit again in our lifetime.”

It was 100 years ago this week that Austria-Hungary declared war on Serbia, setting in motion the unspeakable calamity that contemporaries dubbed the Great War. Well in excess of 10 million people perished, and by some estimates, many more.

Numbers, even staggering ones like this, can scarcely convey the depth and breadth of the destruction. The war was an ongoing slaughter of devastating proportions. Tens of thousands perished in campaigns that moved the front just a matter of yards. It was World War I that gave us the term “basket case,” by which was meant a quadruple amputee. Other now-familiar tools of warfare came into common use: the machine gun, the tank, even poison gas. Rarely has the State’s machinery of senseless destruction been on more macabre display.

The scholarly pendulum has swung back in the direction of German atrocities having indeed been committed in Belgium, though perhaps not quite as gruesome as the tales of babies being passed from bayonet to bayonet that were disseminated to Americans early in the war. It was World War I that gave us the term “basket case,” by which was meant a quadruple amputee. Other now-familiar tools of warfare came into common use: the machine gun, the tank, even poison gas. Rarely has the State’s machinery of senseless destruction been on more macabre display.

The intervention by Woodrow Wilson, against the wishes of most Americans – were that not so, neither the draft nor the ceaseless propaganda would have been necessary – was one of the most catastrophic decisions ever made, by anyone. It set in motion a sequence of events whose consequences would reverberate throughout the 20th century.

One can make a case, not merely plausible but indeed quite compelling, that in the absence of Wilson’s intervention, the entire litany of 20th-century horrors could have been avoided. Without a punitive peace, which only Wilson’s intervention made possible, the Nazis would have had no natural constituency, and no path to power. The Bolshevik Revolution, which succeeded only because of the unpopularity of the war, might not have occurred if the promise of coming American support had not kept that war going.

Even George Kennan, a pillar of the establishment, admitted in retrospect: “Today if one were offered the chance of having back again the Germany of 1913 – a Germany run by conservative but relatively moderate people, no Nazis and no Communists – a vigorous Germany, full of energy and confidence, able to play a part again in the balancing-off of Russian power in Europe, in many ways it would not sound so bad.”

Meanwhile, the Turkish collapse, writes Philip Jenkins, led some Muslims to seek a different basis on which to unify, and that in turn has encouraged the most illiberal forms of Islam.

Oh, but everyone is against war, right?

Yes, just about everyone makes the perfunctory nod to the tragedy of war, that war is a last resort only, and that everyone sincerely regrets having to go to war.

But war has been at the heart of much modern ideology. For years, Theodore Roosevelt had exulted at the prospect of war. Peace was for the weak and flabby. The strains of war were a school of discipline and manliness, without which nations degenerate. Fascists, in turn, urged their countries to
adopt for domestic use the patterns of military life: regimentation, limitations on dissent, the common pursuit of a single goal, proper reverence for The Leader, the subordination of all other allegiances in favor of loyalty to the State, and the priority of the “public interest” over mere private interests.

If the fascist right has been rightly associated with militarism, that isn’t because the revolutionary left has been any less dedicated to organized violence. Robert Nisbet wrote,

“Napoleon was the perfect exemplar of revolution as well as of war, not merely in France but throughout almost all of Europe, and even beyond. Marx and Engels were both keen students of war, profoundly appreciative of its properties with respect to large-scale institutional change. From Trotsky and his Red Army down to Mao and Chou En-lai in China today, the uniform of the soldier has been the uniform of the revolutionist.”

For their part, those people we associate with progressivism in the United States, with only a handful of exceptions, overwhelmingly favored intervening in the war. They favored it not only out of the bipartisan sense of American righteousness that goes back as far as one cares to look, but also precisely because they knew war meant bigger and more intrusive government. They knew it would make people accustomed to the idea that they can be called upon to carry out the State’s program, whatever it may be.

Murray N. Rothbard drew up the indictment of the Progressives on this count. He added that the standard view of historians that World War I amounted to the end of Progressivism was exactly backwards: World War I, with its economic planning, the impetus it gave to government growth, and its disparagement of private property and the mundane concerns of bourgeois life, represented the culmination of everything the Progressive movement represented.

By contrast, war is the very negation of the libertarian creed. It disrupts the international division of labor. It treats human beings as disposable commodities in the service of State ambition. It undermines commerce, sound money, and private property. It results in an increase of State power. It demands the substitution of the great national effort in place of the private interests of free individuals. It urges us to sympathize not with our fellow men around the world, but with the handful of people who happen to administer the State apparatus that rules over us. We are encouraged to wave the flags and sing the songs of our expropriators, as the poor souls on the other side do the same.

In the hands of commerce and the market, the fruits of capitalist civilization improve living standards and lift people out of destitution. But the political class cannot be trusted with these good things. The very success of the market economy has meant more resources to be siphoned off by the warmakers. As Ludwig von Mises wrote in *Nation, State, and Economy* (1919):

War has become more fearful and destructive than ever before because it is now waged with all the means of the highly developed technique that the free economy has created. Bourgeois civilization has built railroads and electric power plants, has invented explosives and airplanes, in order to create wealth. Imperialism has placed the tools of peace in the service of destruction. With modern means it would be easy to wipe out humanity at one blow. In horrible madness Caligula wished that the entire Roman people had one head so that he could strike it off. The civilization of the twentieth century has made it possible for the raving madness of the modern imperialists to realize similar bloody dreams. By pressing a button one can expose thousands to destruction. It was the fate of civilization that it was unable to keep the external means that it had created out of the hands of those who had remained estranged from its spirit. Modern tyrants have things much easier than their predecessors....

Nothing in the world is easier than opposing a war that ended long ago. It takes no real courage to be against the Vietnam War in 2014. What takes courage is opposing a war while it is being fought – when the propaganda and intimidation of the public are at their height – or even before it breaks out in the first place. With the memory of the moral and material
catastrophe of World War I before us 100 years later, let us pledge never again to be fooled and exploited by the State and its violent pastimes.

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Comment by R. Nelson Nash – Lew is the champion of demonstrating the folly of the Welfare-Warfare mind-set that plagues our world. This condition has got to change. I’m leading an effort to change the name of Washington, DC to “The Fear Factory.” Their propaganda creates fear that “only the government can solve” and people actually believe their nonsense. Wake up, America!

The “Entrepreneurial” State is Anything But

by Tyler Kubik on July 29, 2014

After the empirical failure of socialism in the Soviet Union, and the corresponding unpopularity of state control of the economy, left-leaning economists and politicos have increasingly turned to other justifications for state intervention into the economy, climate change being one particular example. Alternatively, one of the more “trendy” ways of justifying state interventionism has been a “dynamic” theory of the state. This theory might best be represented in Nobel Prize winner Joseph Stiglitz’s attempted revival of industrial policy, or in Mariana Mazzucato’s 2013 book entitled The Entrepreneurial State.

In this view, the State is thought of not as a “sluggish, bureaucratic, inertial, ‘meddling’” entity; rather, as a dynamic, entrepreneurial entity capable of directing funding and being a leading agent in developing technological breakthroughs that could drive a successful economy.

In The Entrepreneurial State, Mazzucato fails to offer any convincing theory as to how the so-called entrepreneurial state’s mechanism for determining the allocation of investment funds — the political or bureaucratic mechanism — is superior to the profit-loss mechanism in which market actors operate.

Throughout her book, Mazzucato’s economic reasoning falters on one of the most basic axioms of economics, namely the broken-window fallacy. The broken-window fallacy, as Henry Hazlitt noted in 1946:

is the persistent tendency of men to see only the immediate effects of a given policy, or its effects only on a special group, and to neglect to inquire what the long-run effects of that policy will be not only on that special group but on all groups. It is the fallacy of overlooking secondary consequences.

The special groups referred to above by Hazlitt are those industries Mazzucato focuses her case studies on, most notably green energy and the solar and wind power industries. It is easy, but meaningless, to discuss the effects of policy in a positive light when one’s sole focus is on the industry being subsidized, in the case of green energy to the tune of billions of dollars each year. The unseen of these policy prescriptions, however, is what would have happened had these resources not been consumed by the inefficient green energy industry. No one can say where the funds would have ended up or how they would have been spent, but it is certainly true that by subsidizing green energy, it meant that the money was not available for other industries to grow and innovate; nor was it left in the pockets of taxpayers to decide where they wanted their money to go for themselves.

In all of the markets Mazzucato mentioned as ripe for state investment are due to private failure of the market system to provide this research, such as green energy and pharmaceuticals. Mazzucato fails to consider that it is the distortions caused by government interventions in these markets themselves that cause the “failures” of the market; this is the “unbroken leg” fallacy of Robert Higgs writ large:

This is the presumption, which underlies all sorts of state intervention, both macroeconomic and microeconomic, in the market system, that the participants in markets are perfectly capable of acting more productively but, owing to various “market failures,” are not doing so on their own and require state action to repair the situation.
The fallacy is that this reasoning completely ignores the countless ways in which the state’s own intrusions and engagements in the economic system in effect “break the legs” of private-sector actors by distorting prices (including interest rates), penalizing productive actions, and subsidizing destructive actions. Having invaded the economic order like the proverbial bull in a China shop, the state’s kingpins ... blame “market failures” for the wreckage they themselves have created — an ever-changing hodgepodge of bad incentives.

Despite Mazzucato’s insistence that innovations, such as transcontinental railroads, were made possible by government promotion and subsidization that could not have happened otherwise — the “You Didn’t Build That” argument — historian Burton W. Folsom Jr., in his recent book, recounts how entrepreneur James J. Hill overcame all obstacles — including direct competition from government subsidized and managed competitors — to create a successful transcontinental railroad absent all of the nascent problems which had plagued the Union Pacific, Northern Pacific, and Central Pacific Railroads throughout their construction and (mis)management.

Unlike the federally-subsidized railroads, Hill had to make sure his track was built as efficiently and durably as possible while choosing paths for his track which would ensure there would be customers that would pay him to use his track. If there was a dearth of individuals residing in an area he was building his track through, Hill encouraged settlement through a combination of incentives.[1] Government subsidies, on the other hand, fostered perverse incentives which subsidized inefficiency, thus ending up with profligacy and corruption surrounding the lines, finally entailing insolvency of the government transcontinentals.

Mazzucato mentions the Wright brothers in her book, [2] but fails to mention that Wilbur and Orville Wright were able to outcompete the government-funded Samuel Langley — who was funded to the tune of $50,000 — using less than $2,000 of their own funds. Langley, despite being the front-runner in the race to fly and being heavily subsidized by the government, developed nothing of use (his aerodromes seemed to do little more than continuously nose dive into the river) and was bested by the two inventors from Dayton, Ohio who were using profits from a small bike shop to fund their flight experiments. Ironically, “The Boston Herald urged Langley to abandon flying machines and instead focus on submarines,”[3] recognizing the persistent tendency of state directed or funded actors to fail due to their lack of sensitivity to market signals, such as the profit-loss mechanism.

History is replete with examples of entrepreneurs outcompeting the State. Markets are imperfect mechanisms, to be sure, but what must be remembered is that the alternative, government, is often far worse.

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Notes

Comment by R. Nelson Nash – The entire world is in the grip of the idea that all of its problems can be solved by the State. The truth is exactly the opposite. Only social power – free people contracting with one another -- can do the job.
away from formally defaulting on its debts. How could this happen three times in just twenty-eight years?

Following the 2001 default, Argentina offered a debt swap (a restructuring of debt) to its creditors in 2005. Many bondholders accepted the Argentine offer, but some of them did not. Those who did not accept the debt swap are called the “holdouts.” When Argentina started to pay the new bonds to those who entered the debt swap (the “holdsins”), the holdouts took Argentina to court under New York law, the jurisdiction under which the Argentine debt has been issued. After the US Supreme Court refused to hear the Argentine case a few weeks ago, Judge Griesa’s ruling became final.

The ruling requires Argentina to pay 100 percent of its debt to the holdouts at the same time Argentina pays the restructured bonds to the “holdsins.” Argentina is not allowed, under Griesa’s ruling, to pay some creditors but not others. The payment date was June 30. Because Argentina missed its payment, it is now under a 30-day grace period. If Argentina does not pay by the end of July it will, again, be formally in default.

This is a complex case that has produced different, if not opposite, interpretations by analysts and policy makers. Some of these interpretations, however, are not well-founded.

How Argentina Became a Bad Debtor

An understanding of the Argentine situation requires historical context.

At the beginning of the 1990s, Argentina implemented the Convertibility Law as a measure to restrain the central bank and put an end to the hyperinflation that took place in the late 1980s. This law set the exchange rate at one peso per US dollar and stated that the central bank could only issue pesos in fixed relation to the amount of US dollars that entered the country. The Convertibility Law was, then, more than just a fixed-exchange rate scheme. It was legislation that made the central bank a currency board where pesos were convertible to dollars at a “one to one” ratio. However, because the central bank had some flexibility to issue pesos with respect to the inflow of US dollars, it is better described as a “heterodox” rather than “orthodox,” currency board.

Still, under this scheme, Argentina could not monetize its deficit as it did in the 1980s under the government of Ricardo Alfonsin. It was the monetization of debt that produced the high inflation that ended in hyperinflation. Due to the Convertibility Law during the 1990s, Carlos Menem’s government could not finance the fiscal deficit with newly created money. So, rather than reduce the deficit, Menem changed the way it was financed from a money-issuance scheme to a foreign-debt scheme. The foreign debt was in US dollars and this allowed the central bank to issue the corresponding pesos.

The debt issued during the 1990s took place in an Argentina that had already defaulted on its debt six times since its independence from Spain in 1816 (arguably, one-third of Argentine history has taken place in a state of default), while Argentina also exhibited questionable institutional protection of contracts and property rights. With domestic savings destroyed after years of high inflation in the 1980s (and previous decades), Argentina had to turn to international funds to finance its deficit. And because of the lack of creditworthiness, Argentina had to “import” legal credibility by issuing its bonds under New York jurisdiction. Should there be a dispute with creditors, Argentina stated it would accept the ruling of New York courts.

Many opponents of the ruling today claim that Argentina’s creditors have conspired to take away Argentine sovereignty, but the responsibility lies with the Argentine government itself, which has established a long record of unreliability in paying its debts.

The Road to the Latest Default

These New York-issued bonds of the 1990s had two other important features besides being issued under New York legal jurisdiction. The incorporation of the *paripassu* clause and the absence of the *collective action clause*. The *paripassu* clause holds that Argentina agrees to treat all creditors on equal terms (especially regarding payments of coupons and
The collective action clause states that in the case of a debt restructuring, if a certain percentage of creditors accept the debt swap, then creditors who turn down the offer (the “holdouts”) automatically must accept the new bonds. However, when Argentina defaulted on its bonds at the end of 2001, it did so with bonds that included the paripassu clause but which did not require collective action by creditors.

Under the contract that Argentina itself offered to its creditors, which did not include the collective action clause, any creditor is entitled to receive 100 percent of the bonus even if 99.9 percent of the creditors decided to enter a debt swap. And this is precisely what happened with the 2001 default. When Argentina offered new bonds to its creditors following the default, the “holdouts” let Argentina know that under the contract of Argentine bonds, they still have the right to receive 100 percent of the bonds under “equality of conditions” (paripassu) with those who accepted the restructuring. That is, Argentina cannot pay the “holdins” without paying the “holdouts” according to the terms of the debt.

The governments of Nestor Kirchner and Cristina Kirchner, however, in another sign of their contempt for institutions, decided to ignore the holdouts to the point of erasing them as creditors in their official reports (one of the reasons for which the level of debt on GDP looks lower in official statistics than is truly the case).

It could be said that Judge Griesa had to do little more than read the contract that Argentina offered its creditors. In spite of this, much has been said in Argentina (and abroad) about how Judge Griesa’s ruling damages the legal security of sovereign bonds and debt restructuring.

The problem is not Judge Griesa’s ruling. The problem is that Argentina had decided to once again prefer deficits and unrestrained government spending to paying its obligations. Griesa’s ruling suggests that a default cannot be used as a political tool to ignore contracts at politician’s convenience. In fact, countries with emerging economies should thank Judge Griesa’s ruling since this allows them to borrow at lower rates given that many of these countries are either unable or unwilling to offer credible legal protection to their own creditors. A ruling favorable to Argentina’s government would have allowed a government to violate its own contracts, making it even harder for poor countries to access capital.

We can simplify the case to an analogy on a smaller scale. Try to explain to your bank that since it was you who squandered your earnings for more than a decade, you have the right to not pay the mortgage with which you purchased your home. When the bank takes you to court for not paying your mortgage, explain to the judge that you are a poor victim of evil money vultures and that you have the right to ignore creditors because you couldn’t be bothered with changing your unsustainable spending habits. When the judge rules against you, try to explain to the world in international newspapers how the decision of the judge is an injustice that endangers the international banking market (as the Argentine government has been doing recently). Try now to justify the position of the Argentine government.

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Comment by R. Nelson Nash – A few years ago my wife and I went to Argentina for a short visit. In past years I had studied how Argentina was the fifth richest country in the world about 90+ years ago – only to self-destruct during my lifetime. I came away with the feeling that America is trying to “outdo the Argentines” in following the same path of stupid financial behavior.

The Myth of the Unchanging Value of Gold
by Joseph T. Salerno on August 29, 2014

According to mainstream economics textbooks, one of the primary functions of money is to measure the value of goods and services exchanged on the market. A typical statement of this view is given by Frederic Mishkin in his textbook on money and banking. “[M]
wholeheartedly embrace this mainstream doctrine while giving it an odd twist. They begin with the wholly unsupported assumption that one commodity, gold, is stable in value and that, therefore it can serve as the lone guiding star — or “The Monetary Polaris” as Nathan Lewis terms it — for Fed monetary policy.

According to Steve Forbes, writing in the introduction to Lewis’s Gold: The Monetary Polaris, real gold standards have one thing in common: “They use gold as a measuring rod to keep the value of money stable. Why? Because the yellow metal keeps its intrinsic value better than anything on the planet.”

Louis Woodhill, in a Forbes column, writes in a similar vein, explaining that “[t]he fundamental validity of the gold standard rests upon the premise that the real value of gold remains constant over time. ... The most fundamental thing about a unit of measure is that it be constant. ... Gold is not money, and it should not be money. However we can and should use gold to define the value of the dollar.” These passages reflect an almost mystical belief that the “intrinsic” or “real” value of gold is, for all practical purposes, eternally unchanged, unaffected by the continual flux of human valuations, stocks of resources (including gold itself), technology, and entrepreneurial judgments that define the essence of the dynamic market economy. Furthermore no definition is ever given of what exactly the concept of “intrinsic value” means or in what units it is expressed.

Historical experience clearly shows that the value of gold vis-à-vis other commodities has fluctuated over the centuries, even when gold has served as the monetary standard. This was certainly the case, for example, when the US returned to the gold standard after the Civil War. From 1880 to 1896, US wholesale prices fell by about 30 percent. From 1897 to 1914 wholesale prices rose by about 2.5 percent per year or by nearly 50 percent. This rise came about mainly as the result of a nearly doubling of the global stock of gold between 1890 and 1914 due to discoveries of new gold deposits in Alaska, Colorado, and South Africa, and improvements in the technology of mining and refining gold.

Proponents of gold-price targeting thus seem to
ignore both theory and history in assuming that once the dollar price of gold has been fixed, the value of money itself becomes forever stable and immune to the influence of market forces of supply and demand. Inflation and deflation are, therefore, ipso facto banished from the economy. This implies that any changes occurring in the quantity of money under a fixed-gold price regime are to be construed as benign and stabilizing adjustments of the supply of money to changes in the demand for money. Steve Forbes writes: “The fact that a foot has 12 inches doesn’t restrict the number of square feet you have in a house. The fact that a pound has 16 ounces doesn’t restrict your weight, alas — it’s a simple measurement. ... The virtue of a properly constructed gold standard is that it’s both stable and flexible—stable in value and flexible in meeting the marketplace’s natural need for money. If an economy is growing rapidly such a gold-based system would allow for rapid expansion of the money supply.”

In other words Forbes’s “stable and flexible” gold standard would facilitate and camouflage an inflationary expansion of the money supply that would, according to Austrians, distort capital markets and lead to asset bubbles. The motto of our current gold-price fixers seems to be: “We want sound money — and plenty of it.”

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Joseph Salerno is academic vice president of the Mises Institute, professor of economics at Pace University, and editor of the Quarterly Journal of Austrian Economics. He has been interviewed in the Austrian Economics Newsletter and on Mises.org.

Comment by R. Nelson Nash – Every once in a while “a little ray of sunshine” appears in the thoughts of mankind to lighten up a corner of this dark world of economic thought. Joe has provided us with a good one today. Don’t let the light blind you. Read his article several times! Thanks, Joe!
Welcome the newest IBC Practitioners
https://www.infinitebanking.org/finder/

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

• Robert Downes, Schaumburg, IL
• Russ Morgan, Birmingham, AL
• Dan Dean, Edmonton, Alberta, CA
• Jason Henderson, Logan, UT
• Justin Craft, Birmingham, AL
• Winnie Lau, Edmonton, Alberta, CA
• David Lukas, Little Rock, AR

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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.

The IBC Practitioner has signed the IBC Practitioner’s Agreement with the IBI that specifies that he or she is a financial professional who wishes to advertise his status as an IBC Practitioner, and acknowledges possession of the proper licensing and other legal requirements to practice in his industry. The IBC Practitioner agrees for those clients who want an IBC policy, he will design it according to certain characteristics to ensure that these specific clients are getting a “Nelson Nash” policy, as described in his books and seminars. If an IBC Practitioner is dealing with a client who asks for an “IBC,” “Nelson Nash,” “privatized banking,” or “banking” policy, or if the Practitioner recommends such a policy to the client, and/or if the client has come to the Practitioner by referral from his listing at the IBI website, then and only then the Practitioner must be sure to set this particular client up with a dividend-paying, whole life policy.

Nelson’s Favorite Quotes

“As democracy is perfected, the office of the President represents, more and more closely, the inner soul of the people. On some great and glorious day, the plain folks of the land will reach their heart’s desire at last and the White House will be occupied by a downright fool and complete narcissistic moron.” - H.L. Mencken, the Baltimore Evening Sun, July 26, 1920

“If people let the government decide what foods they eat and what medicines they take, their bodies will soon be in as a sorry state as the souls who live under tyranny.” — Thomas Jefferson

“Poisons and medicine are oftentimes the same substance given with different intents.” – Peter Mere Latham