



2957 OLD ROCKY RIDGE ROAD
BIRMINGHAM, ALABAMA 35243

BANKNOTES ARCHIVES:

INFINITEBANKING.ORG/BANKNOTES

NELSON NASH, FOUNDER
NELSON31@CHARTER.NET

DAVID STEARNS, EDITOR
DAVID@INFINITEBANKING.ORG

Did “Tight” Fed Policy Cause the Financial Crisis?

DECEMBER 16, 2015 — Robert P. Murphy

Recently Senator Ted Cruz aggressively questioned Janet Yellen on the Fed’s possible role in causing the financial crisis and subsequent recession. In particular, he claimed that “in the summer of 2008” the Fed “told markets that it was shifting to a tighter monetary policy,” and that this announcement “set off a scramble for cash, which caused the dollar to soar, asset prices to collapse, and CPI [growth — RPM] to fall below zero, which set the stage for the crisis.” Cruz asked Yellen if she agreed with Bernanke’s view from his new book, in which he says the Fed made a mistake by not cutting rates in September 2008.

In response, Yellen at first seemed befuddled by Cruz’s line of inquiry. She said that without further review she wasn’t going to second-guess Bernanke’s opinion that the Fed should’ve cut rates sooner. But she was quite sure that the Fed’s possibly delayed reaction didn’t cause the financial crisis, and in any event, Yellen reminded Cruz that by December 2008 the Fed had cut the federal funds rates down to 0 percent.

Several prominent “Market Monetarists” (such as Scott Sumner and David Beckworth) applauded Cruz’s position, because it dovetails nicely with their explanation that it was actually the Fed’s incredibly *tight* monetary policy that was ultimately responsible for the financial crisis and the Great Recession. In their view, “real factors” such as the collapsing housing market may have generated a run-of-the-mill recession, but it was Fed timidity that turned it

into the worst economy since the 1930s.

The Market Monetarists chose their name out of deference to their intellectual heritage, namely the monetarism of Milton Friedman. Just as Friedman and Schwartz overturned the traditional Keynesian explanation of the Great Depression, by arguing that it was Fed *inaction* in the early 1930s that made the depression Great, so too do Sumner et al. in our time say that it was “tight money” that ultimately caused the Great Recession.

The Fed Dunit, But Through Tight or Easy Money?

Ironically, many fans of the free market are attracted to Friedman’s explanation of the Great Depression, and the modern Market Monetarist explanation of the Great Recession, because these hypotheses still blame government and exonerate capitalism. Yet in the interest of accuracy and intellectual honesty, we have to ask: Do these explanations actually make sense?

The standard Austrian view is arguably the *opposite* of the Friedmanite/Market Monetarist views. Rather than blaming the Fed for “tight money” in the early 1930s and then again in 2008, the orthodox Austrian says that the Fed caused unsustainable booms through “easy money” in the 1920s and in the 2000s.

For more specifics, the interested reader should consult this lecture at Mises University where I sketch the different approaches to the Great Depression. For a longer treatment here is Murray Rothbard’s book on the causes of the 1929 crash and Hoover’s role in starting the Great Depression.

Regarding the housing bubble of our time, here is Mark Thornton’s prescient 2004 mises.org article.

And although I certainly have not been Nostradamus at every turn, in the fall of 2007 (a year before the crisis) on these pages I used Austrian business cycle theory to warn that the US was in store for a recession that could be the worst in decades.

Does Cruz's Story Make Sense?

For a detailed critique of the Market Monetarist approach from an Austrian perspective, see Shawn Ritenour's 2013 article. For our purposes in the present piece, let me try a different approach to showcase the weakness of the approach.

Remember, Ted Cruz told Janet Yellen that in the summer of 2008, the "Fed told markets that it was shifting to a tighter monetary policy," and that this is what ultimately caused the financial crisis a few months later. In other words, Cruz is *not* blaming "real forces" such as an unsustainable capital structure and the need to reallocate resources after the housing bubble. Instead, Cruz is blaming the Fed for shifting expectations in a way that increased the demand for money, and then not providing the market with the money it so desperately wanted.

In order to demonstrate how empty this explanation is, below I will reproduce three different Fed policy statements. Two of the statements had no noticeable effect on markets. However, *one* of the Fed statements below comes from the summer of 2008, and so (if Cruz is right) is responsible for creating a global financial panic and the worst economy since the 1930s.

So my question for the reader: Can you tell which of the following three Fed statements was the one Cruz is referring to? Which of the below caused global panic, and which two did investors shrug off? I have stripped out the level of interest rates and a few key phrases to keep things ambiguous about the date of the announcement, but not in a way that changes the tone of the three Fed statements as they originally appeared to markets.

Fed Statement #1:

The Federal Open Market Committee decided today to keep its target for the federal funds rate at _____ percent.

Economic growth has moderated from its quite strong pace earlier this year, partly reflecting a gradual cooling of _____ and the lagged effects of increases in interest rates and energy prices.

Readings on core inflation have been elevated in recent months, and the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting contained inflation expectations and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.

Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

Fed Statement #2:

The Federal Open Market Committee decided today to keep its target for the federal funds rate at _____ percent.

Recent information indicates that overall economic activity continues to expand, partly reflecting some firming in household spending. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing _____, and the rise in energy prices are likely to weigh on economic growth over the next few quarters.

The Committee expects inflation to moderate later this year and next year. However, in light of the continued increases in the prices of energy and some other commodities and the elevated state of some indicators of inflation expectations, uncertainty about the inflation outlook remains high.

The substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time. Although downside risks to growth remain, they appear to have diminished somewhat, and the upside risks to inflation and inflation expectations

have increased. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.

Fed Statement #3:

The Federal Open Market Committee decided today to keep its target for the federal funds rate at _____ percent.

Recent indicators have been mixed and the adjustment in the _____ sector is ongoing. Nevertheless, the economy seems likely to continue to expand at a moderate pace over coming quarters.

Recent readings on core inflation have been somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.

In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information

Scoring the Test

How did you do? I intentionally picked three Fed statements where the initial announcement was that the target interest rate was the same, so that any "signal" about looseness or tightness would have to be inferred from their discussion of the future. Could you tell which two of the above announcements were innocuous, and which one signaled a new tight money stance that caused a global financial crash not seen since the 1930s?

The answers are that Statement 1 was from August 2006, Statement 2 was from June 2008, and Statement 3 was from March 2007. Does it really sound plausible that the middle statement above was provocative enough to cause Lehman Brothers to fail and a major money market fund to "break the buck" a few months later?

Conclusion

It has been said that in Austrian theory "monetary

factors cause the cycle but real phenomena constitute it." In his canonical treatment, Ludwig von Mises certainly admitted that the commercial banks — through their policies of credit contraction and interest rate movements — could influence the precise *timing* of a crash. However, once an unsustainable boom was underway, a crash was inevitable. It would be foolish to think that a recession was due *merely* to the unwillingness of banks to continue with monetary inflation and artificially low interest rates.

Ted Cruz and the Market Monetarists are right to blame the Fed for the financial crisis, but they are focusing on the wrong end. The real problem was the Fed's *inflation* of the early and mid-2000s that fueled the housing bubble and related malinvestments.

Yes, after a credit-fueled boom, the precise timing of the crash will probably occur when the central bank "tightens." Yet that hardly means the recession is the fault of timidity. Ultimately, the only way to prevent painful busts is to avoid the pleasurable booms that precede them.

Comment by R. Nelson Nash – This article first appeared in Mises Daily. We are proud to have Robert P. Murphy, PhD as one of the Directors of The Nelson Nash Institute.

Bubble Watch: No-Down-Payment Jumbo Mortgage Makes a Comeback

by Paul-Martin Foss

December 11, 2015

A credit union in San Francisco is offering a \$2 million, no down payment mortgage loan to borrowers. And while this is being offered by a credit union, credit unions of necessity being more cautious lenders than banks, and the credit union will no doubt vet potential borrowers very carefully, what could be more indicative of a bubble than a no down payment, adjustable rate jumbo loan? Sure, this may not be a NINJA loan, but it's being offered because of the huge amount of easy money pumped into the financial system by the Federal Reserve.

San Francisco's real estate market is widely regarded as being in a bubble, boosted by the money flowing into the tech industry. The tech industry, of course, is also regarded as being its own bubble, brought about by the massive amounts of money poured into the financial system by the Federal Reserve in response to the 2008 financial crisis. With the Fed possibly on the cusp of raising rates, one has to wonder how much longer the tech bubble will last. The amazingly huge valuations of tech companies that, even years into their operations, have yet to make profits anywhere close to projections (assuming they're in the black at all) point to injections of massive amounts of easy money.

In the age of zero interest rates, investors are desperate for a return, and thus have created Dotcom 2.0. When the tech bubble eventually collapses, the San Francisco housing market will go down with it. Borrowers who thought that their big tech payouts would mean that a \$2 million mortgage would be no big deal to pay off will find themselves in a tough spot. And with very little equity in their house, the temptation to walk away from their mortgages will be immense. All the money flowing into real estate in recent years may have financial institutions thinking things are A-OK, but jumbo loans aren't a foolproof bet. Rich people default too, so let's hope the credit union does a good job in vetting the recipients of its loans.

From the Carl Menger Center.

Comment by R. Nelson Nash – The “fool’s paradise” continues! The day of reckoning will appear. It is the inevitable result of putting confidence in the demi-gods of the banking industry. The obvious remedy is to take the banking function in your life away from them by Becoming Your Own Banker.

No, "Big Data" Can't Predict the Future

Per Bylund December 7, 2015

With Google's dominance in the online search engine market we entered the Age of Free. Indeed, services offered online are nowadays expected to be offered at no cost. Which, of course, does not mean that there

is no cost to it, only that the consumer doesn't pay it. Early attempts financed the services with ads, but we soon saw a move toward making the consumer the product. Today, free and unfree services alike compete for “users” and then make money off the data they collect.

Data has always been used, but what's new for our time is the very low (or even zero) marginal cost for collecting and analyzing huge amounts of data. The concept of “Big Data” is taking over and is predicted to be “the future” of business.

There's a problem here, and it is the over-reliance on the Law of Large Numbers in social forecasting. Statistical probabilities for events may mathematically converge to the mean, but is it applicable in the real world? The answer is most definitely yes in the natural sciences. Repeated controlled experiments will weed out erroneous explanations or causes to phenomena, at least assuming we're good enough at separating and controlling those causes.

What about the social sciences? In this age of scientism, as Hayek called it, we're told “Big Data” will completely transform production, logistics, and sales. The reason for this is that vendors can better target customers and even foresee what they might want next. Amazon.com does this on their web site in crude form, where they make suggestions based on your purchase history and what others with similar purchase histories have searched for. Sometimes it works, and sometimes it doesn't.

There is some regularity to our interests and behavior. All of us are, after all, human beings — and we're formed in certain cultures. So one American with interests x, y, and z may have other interests similar to another American who also has an interest in x, y, and z.

Human Behavior Is Unpredictable

But similarity is not the same thing as prediction. Amazon.com's suggestions or the highly annoying ads following you around web sites are useful methods for sellers because they can somewhat accurately identify what not to offer. Exclusion of very low-probability

interests increases the probability for suggesting something that the person behind the eyeballs focusing on the computer screen may be interested in.

To use as prediction, however, exclusion of almost-zero probability events is far from sufficient. Indeed, prediction requires that we are able to accurately exclude all but one or a couple highly probable outcomes. And we have to be able to rely on that these predictions turn out to be true. Otherwise we're just playing games, and so we're making guesses. Sure, they're educated guesses (because we've excluded the impossible and almost-impossible), but they're still games and guesses.

Where Big Data Fails

Speaking of guesses, Microsoft's Bing search engine, which powers the Windows digital assistant Cortana among other things, has produced a prediction engine with the purpose of predicting sports and other results. They rely on very advanced algorithms and huge amounts of collected data.

Amazingly, they did very well initially and predicted the outcomes of the World Cup perfectly. So maybe we can use Big Data to get a glimpse of the future?

No, not so. The Bing teams are learning a lesson only Austrians and, more specifically, Misesian praxeologists, seem to be alone in grasping: that there are no constants in human action, and therefore that predictions of social phenomena are impossible. Pattern predictions, as Hayek called them, may not be impossible, but predictions of exact magnitudes are. For instance, we can rely on economic law (such as "demand curves slope downward") to estimate an outcome such as "the price will be lower than it otherwise would have been," but we can't say exactly what that price will be.

When it comes to sports, reality shows and other competitions between individuals or teams, the story is exactly the same. The team with a better track record doesn't always win. Why? They have objectively performed better than the other team, perhaps exclusively so, but this doesn't say anything about the future. We're not here referring to the philosophical

doubt as in "will the sun shine tomorrow?" (maybe something changes completely the sun's ability to shine during the night).

The Social Sciences Are Different

In the social sciences we're dealing with complex phenomena. Action and, especially, its *outcome* is the result of a complex system of social interaction, psychology, and much more. Are the players in both teams as motivated and focused as they were before? Did anything in their personal lives affect their mindsets or psyches? How do the players within their teams and players in other teams react on each other before and during the game? A team with a poor track record can upset a team with an objectively better track record; this happens all the time. Sometimes for the sole reason that the better team underestimates the worse team, or because the underdog feels no pressure to perform and therefore plays less defensively.

Bing's prediction engine struggles with this, just as we would predict. As Windows Central reported recently, the prediction engine had its "worst week yet" picking only four of fourteen winners in the NFL. Overall, its track record was approximately two-thirds right and one-third wrong (95–53). It's definitely better than tossing a coin, but pretty far from actually predicting the results.

In other words, if you're placing bets you may want to use the Bing prediction engine. That is, unless you have the type of tacit, implicit understanding of what's going on that the engine is missing. Maybe you can beat it, or maybe not. In either case, you cannot count on coming out a victor each and every time.

The reason for this is that the outcome simply cannot be predicted perfectly — or even close to it. Even the players themselves cannot predict who'll win a game, but they may have inside information about whether their own team seems motivated and focused. It is not a perfect method, however, and it certainly cannot be scientific.

Even with Big Data there's no predicting of social events — there's only guessing. Yes, guessing with access to huge amounts of data is easier, at least if the

data is reliable and relevant. But a good guess is not the same thing as a prediction; it is still a guess, and it can be wrong. Winning every time requires luck.

Comment by R. Nelson Nash -- It is just like Per Bylund says early in this article: Human Activity is Unpredictable.

PC Is About Control, Not Etiquette

DECEMBER 28, 2015 — Jeff Deist

[This article appears in the November–December 2015 issue of *The Austrian*.]

I'd like to speak today about what political correctness is, at least in its modern version, what it is not, and what we might do to fight against it.

To begin, we need to understand that political correctness is not about being nice. It's not simply a social issue, or a subset of the culture wars.

It's not about politeness, or inclusiveness, or good manners. It's not about being respectful toward your fellow humans, and it's not about being sensitive or caring or avoiding hurt feelings and unpleasant slurs.

But you've heard this argument, I'm sure. PC is about simple respect and inclusiveness, they tell us. As though we need progressives, the cultural enforcers, to help us understand that we shouldn't call someone retarded, or use the "N" word, make hurtful comments about someone's appearance, or tolerate bullies.

If PC truly was about kindness and respect, it wouldn't need to be imposed on us. After all, we already have a mechanism for the social cohesion PC is said to represent: it's called manners. And we already have specific individuals charged with insuring that good manners are instilled and upheld: they're called parents.

Political Correctness Defined

But what exactly is PC? Let me take a stab at defining it: Political correctness is the conscious, designed manipulation of language intended to change the way people speak, write, think, feel, and act, in furtherance of an agenda.

PC is best understood as propaganda, which is how I suggest we approach it. But unlike propaganda, which historically has been used by governments to win favor for a particular campaign or effort, PC is all-encompassing. It seeks nothing less than to mold us into modern versions of Marx's un-alienated society man, freed of all his bourgeois pretensions and humdrum social conventions.

Like all propaganda, PC fundamentally is a lie. It is about refusing to deal with the underlying nature of reality, in fact attempting to alter that reality by legislative and social fiat. A is no longer A.

To quote Hans-Hermann Hoppe:

[T]he masters ... stipulate that aggression, invasion, murder and war are actually self-defense, whereas self-defense is aggression, invasion, murder and war. Freedom is coercion, and coercion is freedom. ... Taxes are voluntary payments, and voluntarily paid prices are exploitative taxes. In a PC world, metaphysics is diverted and rerouted. Truth becomes malleable, to serve a bigger purpose determined by our superiors.

But where did all this come from? Surely PC, in all its various forms, is nothing new under the sun. I think we can safely assume that feudal chiefs, kings, emperors, and politicians have ever and always attempted to control the various forms, is nothing new under the sun. I think we can safely assume that feudal chiefs, kings, emperors, and politicians have ever and always attempted to control the language, thoughts, and thus the actions of their subjects. Thought police have always existed.

To understand the origins of political correctness, we might look to the aforementioned Marx, and later the Frankfurt school. We might consider the work of Leo Strauss for its impact on the war-hungry think tank world. We might study the deceptive sloganeering of Saul Alinsky. We might mention the French philosopher Foucault, who used the term "political correctness" in the 1960s as a criticism of unscientific dogma.

But if you really want to understand the black art

of PC propaganda, let me suggest reading one of its foremost practitioners, Edward Bernays.

Bernays was a remarkable man, someone who literally wrote the book on propaganda and its softer guise of public relations. He is little discussed in the West today, despite being the godfather of modern spin.

He was the nephew of Sigmund Freud, and like Mises was born in Austria in the late nineteenth century. Unlike Mises, however, he fortuitously came to New York City as an infant and then proceeded to live an astonishing 103 years.

One of his first jobs was as a press agent for President Woodrow Wilson's Committee on Public Information, an agency designed to gin up popular support for US entry into WW1 (German Americans and Irish Americans especially were opposed). It was Bernays who coined the infamous phrase "Make the World Safe for Democracy" used by the committee.

After the war, he asked himself whether one could "apply a similar technique to the problems of peace." And by "problems," Bernays meant selling stuff. He directed very successful campaigns promoting Ivory Soap, for bacon and eggs as a healthy breakfast, and ballet. He directed several very successful advertising campaigns, most notably for Lucky Strike in its efforts to make smoking socially acceptable for women.

The Role of "Herd Psychology"

Bernays was quite open and even proud of engaging in the "manufacturing of consent," a term used by British surgeon and psychologist Wilfred Trotter in his seminal *Instincts of the Herd in Peace and War* published in 1919.

Bernays took the concept of herd psychology to heart. The herd instinct entails the deep seated psychological need to win approval of one's social group. The herd overwhelms any other influence; as social humans, our need to fit in is paramount.

But however ingrained, in Bernays's view the herd instinct cannot be trusted. The herd is irrational and dangerous, and must be steered by wiser men in a thousand imperceptible ways — and this is key. They must not know they are being steered.

The techniques Bernays employed are still very much being used to shape political correctness today.

First, he understood how all-powerful the herd mind and herd instinct really is. We are not the special snowflakes we imagine, according to Bernays. Instead we are timorous and malleable creatures who desperately want to fit in and win acceptance of the group.

Second, he understood the critical importance of using third party authorities to promote causes or products. Celebrities, athletes, models, politicians, and wealthy elites are the people from whom the herd takes its cues, whether they're endorsing transgender awareness or selling luxury cars. So when George Clooney or Kim Kardashian endorses Hillary Clinton, it resonates with the herd.

Third, he understood the role that emotions play in our tastes and preferences. It's not a particular candidate or cigarette or a watch or a handbag we really want, it's the emotional component of the ad that affects us, however subconsciously.

What We Can Do About It

So the question we might ask ourselves is this: how do we fight back against PC? What can we do, as individuals with finite amounts of time and resources, with serious obligations to our families, loved ones, and careers, to reverse the growing tide of darkness?

First, we must understand that we're in a fight. PC represents a war for our very hearts, minds, and souls. The other side understands this, and so should you. The fight is taking place on multiple fronts: the state-linguistic complex operates not only within government, but also academia, media, the business world, churches and synagogues, nonprofits, and NGOs. So understand the forces aligned against you.

Understand that the PC enforcers are not asking you, they're not debating you, and they don't care about your vote. They don't care whether they can win at the ballot box, or whether they use extralegal means. There are millions of progressives in the US who absolutely would criminalize speech that does not comport with their sense of social justice.

One poll suggests 51 percent of Democrats and 1/3 of all Americans would do just that.

The other side is fighting deliberately and tactically. So realize you're in a fight, and fight back. Culturally, this really is a matter of life and death.

We Still Have Freedom to Act

As bad as PC contamination may be at this point, we are not like Mises, fleeing a few days ahead of the Nazis. We have tremendous resources at our disposal in a digital age. We can still communicate globally and create communities of outspoken, anti-PC voices. We can still read and share anti-state books and articles. We can still read real history and the great un-PC literary classics. We can still homeschool our kids. We can still hold events like this one today.

This is not to say that bucking PC can't hurt you: the possible loss of one's job, reputation, friends, and even family is very serious. But defeatism is never called for, and it makes us unworthy of our ancestors.

Use humor to ridicule PC. PC is absurd, and most people sense it. And its practitioners suffer from a comical lack of self-awareness and irony. Use every tool at your disposal to mock, ridicule, and expose PC for what it is.

Never forget that society can change very rapidly in the wake of certain precipitating events. We certainly all hope that no great calamity strikes America, in the form of an economic collapse, a currency collapse, an inability to provide entitlements and welfare, energy shortages, food and water shortages, natural disasters, or civil unrest. But we can't discount the possibility of these things happening.

And if they do, I suggest that PC language and PC thinking will be the first ornament of the state to go. Only rich, modern, societies can afford the luxury of a mindset that does not comport with reality, and that mindset will be swiftly swept aside as the "rich" part of America frays.

Men and women might start to rediscover that they need and complement each other if the welfare state breaks down. Endless hours spent on social media might give way to rebuilding social connections that

really matter when the chips are down.

More traditional family structures might suddenly seem less oppressive in the face of great economic uncertainty. Schools and universities might rediscover the value of teaching practical skills, instead of whitewashed history and grievance studies. One's sexual preferences might not loom as large in the scheme of things, certainly not as a source of rights. The rule of law might become something more than an abstraction to be discarded in order to further social justice and deny privilege.

Play the Long Game

I'm afraid it might not be popular to say so, but we have to be prepared for a long and hard campaign. Let's leave the empty promises of quick fixes to the politicians. Progressives play the long game masterfully. They've taken 100 years to ransack our institutions inch by inch. I'm not suggesting incrementalism to reclaim those foregone institutions, which are by all account too far gone — but to create our own.

PC enforcers seek to divide and atomize us, by class, race, sex, and sexuality. So let's take them up on it. Let's bypass the institutions controlled by them in favor of our own. Who says we can't create our own schools, our own churches, our own media, our own literature, and our own civic and social organizations? Starting from scratch certainly is less daunting than fighting PC on its own turf.

Conclusion

PC is a virus that puts us — liberty loving people — on our heels. When we allow progressives to frame the debate and control the narrative, we lose power over our lives. If we don't address what the state and its agents are doing to control us, we might honestly wonder how much longer organizations like the Mises Institute are going to be free to hold events like this one today.

Is it really that unimaginable that you might wake up one day and find sites with anti-state and anti-egalitarian content blocked — sites like mises.org and lewrockwell.com?

Or that social media outlets like Facebook might simply eliminate opinions not deemed acceptable in the new America?

In fact, head Facebook creep Mark Zuckerberg recently was overheard at a UN summit telling Angela Merkel that he would get to work on suppressing Facebook comments by Germans who have the audacity to object to the government's handling of migrants.

Here's the Facebook statement:

We are committed to working closely with the German government on this important issue. We think the best solutions to dealing with people who make racist and xenophobic comments can be found when service providers, government, and civil society all work together to address this common challenge.

Chilling, isn't it? And coming soon to a server near you, unless we all get busy.

Comment by R. Nelson Nash—Jeff Deist gives us another insidious example of how The State attempts to control our every action. There is always a hidden objective in everything it does.

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 7

CHANGES AND EXCHANGES

Weep not that the world changes - did it keep a stable, changeless state "twere cause indeed to weep. -William Cullen Bryant

Though a lawyer and long-time editor, William Cullen Bryant (1794 – 1878), was most famous as a poet of nature. The paper which he edited and partly owned - *The New York Evening Post* - was renowned for its literary correctness and was a leading free trade,

antislavery journal.

Here we have a top-ranking freedom devotee who had an unusual grasp of nature – creation – and could put the truths he grasped into enlightening verse, as the above testifies.

Not only is the universe in constant change but so is each of us. Most of us, however, strive for "a stable, changeless state" an affront to natural law.

Changes in the universe are of a variety and velocity beyond our comprehension. Our galaxy is but one of a seemingly infinite number of galaxies in an expanding universe; it has some 30 billion stars, each of each of which is in constant enormous change. That cloud in the sky never had another like it in the world's history, nor is it the same as it was a second ago. No two atoms or snowflakes or blades of grass have ever been the same. The entire universe is a moving, changing phenomenon.

There is a tiny planet in that universe, and one of the inhabitants of the tiny planet – man – is a moving, changing phenomenon, as is all else in nature. We humans, as do the clouds or suns of galaxies differ from moment to moment.

Difficult to imagine is the fact that a quintillion (1,000,000,000,000,000,000) atoms exchange in each individual every *second*! From whence and to where in the universe no one knows or ever will. We should grasp the profound meaning of this is we are to prosper materially, intellectually, morally and spiritually. Several sages share Bryant's understanding:

Look abroad thro' Nature's range, Nature's mighty law is change. – Burns

All things are changed, and with them, we, too, Change. Now this way and now that turns fortune's Wheel -- Lotharius I

All things must change To something new, to something strange. – Longfellow

There's nothing constant in the universe, All ebb and flow, and every shape that's born Bears in its womb the seeds of change. – Ovid

There is nothing permanent except change.

– Heraclitus

In the course of time, we grow to love things we once hated and hate things we loved.

-- Stevenson.

Over the years I have known numerous individuals who once loved communism and changed to the point of hating that ignoble creed. Later? Some of them loved liberty! Also, over the past 60 years, I have observed countless citizens – from all walks of life – who once claimed to love liberty whose love changed to hate. Now? They love the planned economy and the welfare state. In what respect does this welfarism differ “from each according to his ability, to each according to his need – communism? Not one whit!

As related to slavery and freedom, Robert Louis Stevenson's statement is valid; love and hate are appropriate. And in ever so many relationships his sentence could be rephrased to read: In the course of time, we grow to like the things we once disliked and to dislike things formerly liked. Reflect on the things liked and now disliked. Or, on the persons who have switched allegiance. “Nature's mighty law is change,” indeed!

In their blindness to reality, many present-day Americans strive for a “Stable, changeless state” – an affront to nature's law. And this accounts in no small measure for the U.S.A.'s plunge into socialism – “cause indeed to weep.”

So, let us try to explain that changes and exchanges are two inseparable parts of nature's law at the human level. It is the change that gives rise to the need for exchange; and the former without the latter has to spell disaster.

Our countrymen by the millions, particularly our elected and appointed political representatives – Federal, state and local – unaware of our ever-changing nature, are determined to stabilize existing conditions, maintain a status quo!

What a coincidence! While on a flight to St. Louis, and just after writing the above paragraph, I overheard a spirited conversation across the aisle and caught this remark: “Ram it down their necks!” Who are some

of these “rammers”? They are the stabilizers, those who would coercively cast us in their images. Briefly, they would freeze us at their own level. They are unwittingly enemies of human evolution.

Implicit in evolving is transformation to ever higher levels. The evolution of mankind does not stem from individuals stagnated at this or that level – from a stable, changeless state – but from a growth in awareness, perception, consciousness. Were it not for growth – changing—mankind would still be at the Cro-Magnon level. But the know-it-alls are blind to this fact in human nature.

Wrote Sir William Hamilton: “The highest *reach* of human science is the scientific *recognition* of human ignorance.”

Reach, indeed! No one can move away from ignorance and toward intelligence who is not forever reaching, striving for enlightenment. One does not *grow* old or ignorant. One becomes old and ignorant by not growing!

Recognition” What is it we must grasp? Not only how infinitesimal is our know-how and the enormity of our ignorance, but how vastly each of us differs from all others! And, this above all: *The ever-changing self?*

When any individual gains an awareness of nature's law, he will never approve of “a stable, changeless state.” Such would be comparable to making human tombstones of ourselves – a deadened humanity.

What does the good life require? Free and unfettered exchanges, bearing in mind the tiny, bits of experience which must constantly flow if we are to prosper materially and intellectually. Is it not self-evident that I cannot live on my ever-changing “bits.” nor you on yours?

The issue is, shall we freeze of free? Having no faith in human tombstones, and believing in freedom of choices and free exchange of *all* creative actions, I choose freedom.

Let us fervently pray that a few others may so choose:

LET FREEDOM REIGN!

Thanks, Janet Yellen: Homeownership in US Falls to 25-Year Low

December 11, 2015 Ryan McMaken

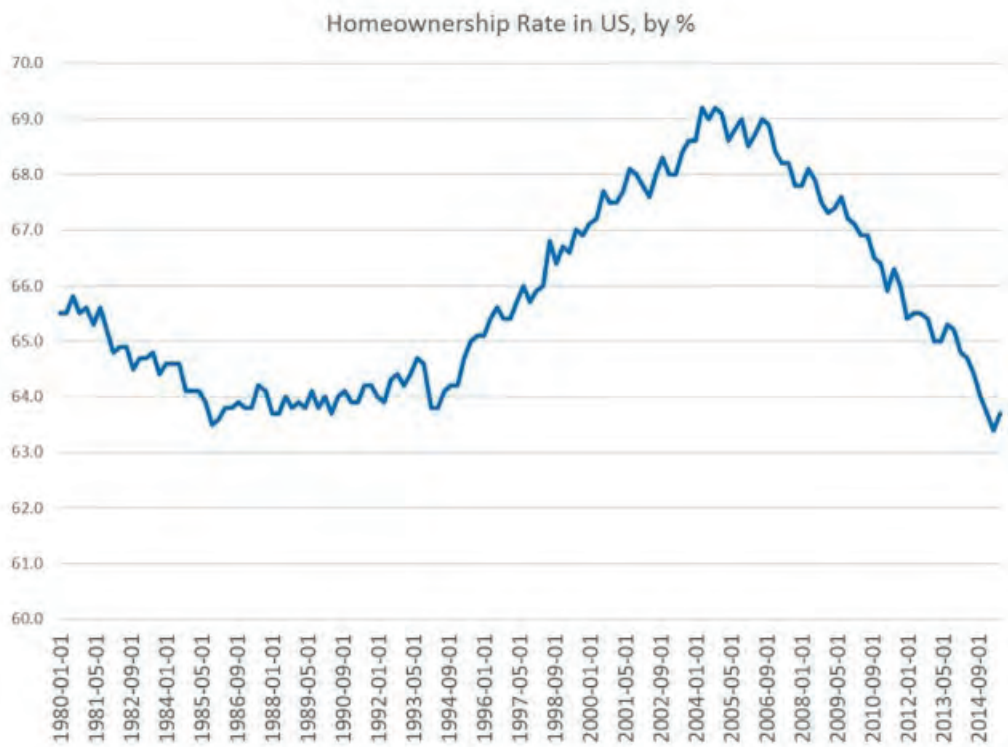
I do not regard homeownership rates as a proxy measure of economic prosperity. But, in the United States, increasing homeownership has long been a goal of federal policymakers, and Federal Reserve policy is often defended on the grounds that it makes homeownership more affordable through its efforts to force down interest rates. Moreover, homeownership does remain broadly popular in the United States as a common life goal and as an indicator of having achieved the so-called "American dream."

However, in recent years, years of federal stimulus and accommodative Fed policy has done a terrible job of making housing more affordable. In fact, thanks to the Fed's efforts to prop up asset prices, housing has become exceptionally unaffordable as both rents and home purchase costs have risen to new highs and outpaced wage growth.

Let's look at some of the stats that provide some indicators of the Fed's legacy in recent years.

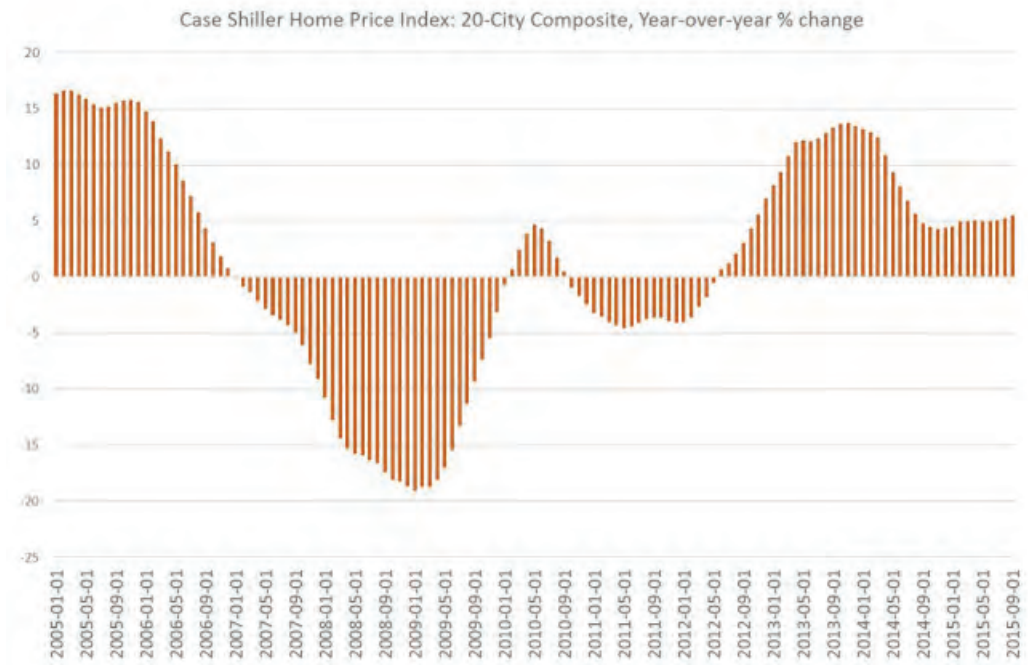
First of all, let's note the most recent quarterly homeownership numbers released by the Census Bureau. During the third quarter of 2015, the homeownership rate was 63.7 percent. That's up slightly from the second quarter of this year, but it's down from the third quarter of 2014 when the rate was 64.4.

More notably, the rate is down *considerably* from the third quarter of 2006 when the homeownership rate was 69 percent. That was likely an all-time high, but since then, the homeownership rate has fallen back to the same place it was in 1990. The homeownership rate was 63.7 percent during the second quarter of 1990. In fact, from 2013 to 2014, the homeownership rate seemed to be in near-freefall.

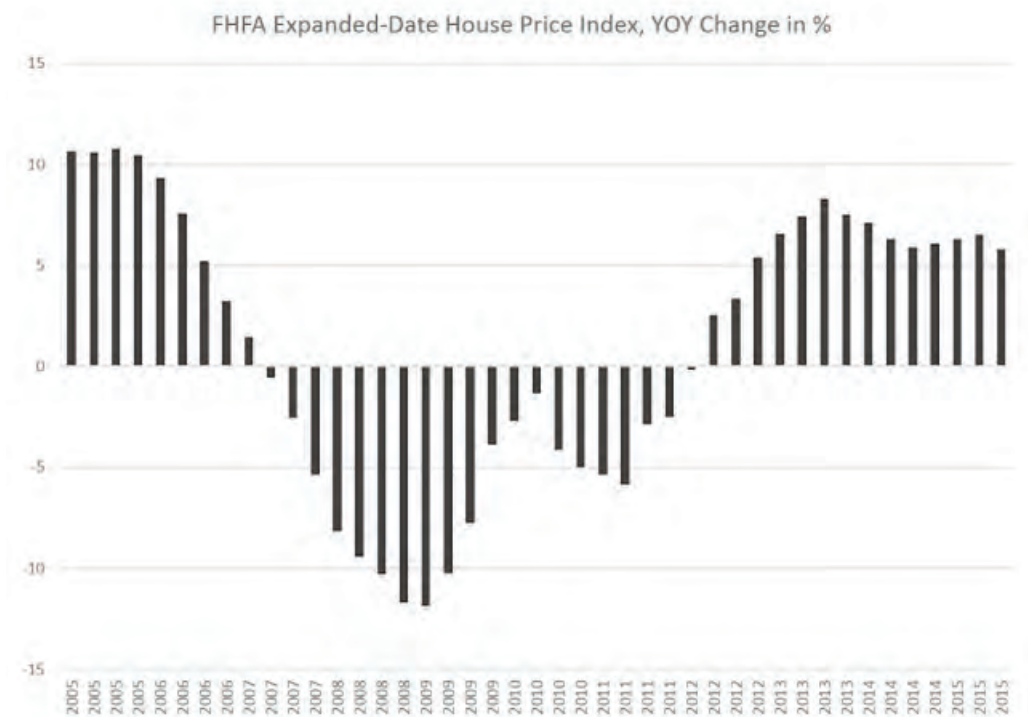


So why are homeownership rates falling so rapidly? Some of it is simply due to the fact that home prices have climbed out of reach of many families. According to the Case-Shiller 20-city composite index, year-over-year

home price growth has been up year-over-year for the past 39 months, and for most of that period has exceeded five percent growth. (Note: for the sake of consistency, none of the numbers discussed below are adjusted for inflation.)



By another measure, (the FHFA expanded-data index) quarterly home price measures have been up year-over-year for the past 14 quarters, with growth exceeding five percent for the past 12 quarters:



For people who already own real estate, this doesn't necessarily present a problem. Those who already own

houses will sell their houses at the new higher prices before buying a new one. For first-time buyers, on the other hand, continually increasing prices presents a problem. And this is even true in an age of easy money.

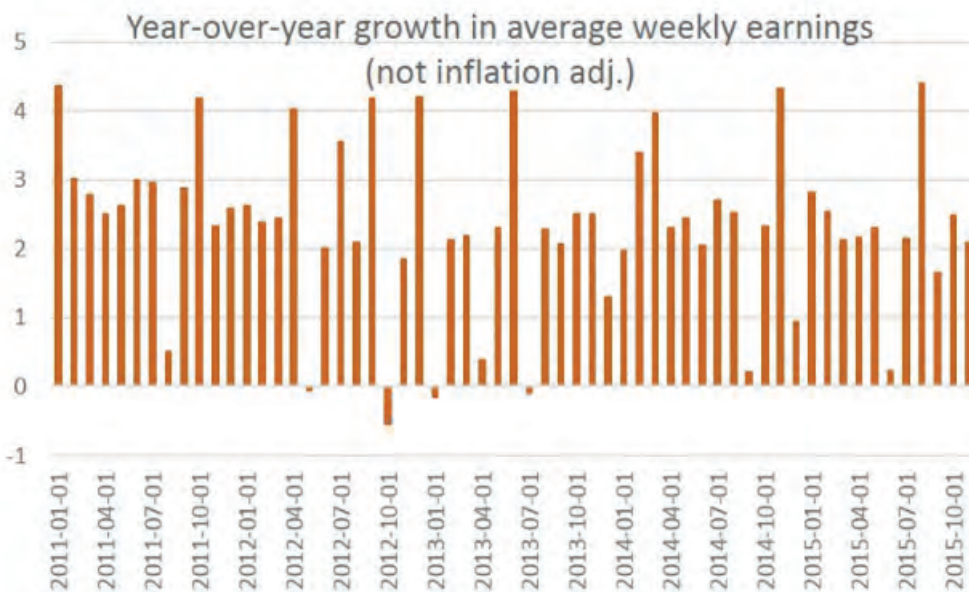
While there was a significant tightening of lending standards from 2009 to 2012, standards have continually loosened over the past two years. So while it's still not as easy to get a home loan as it was during, say, 2005, it's still getting easy to get a loan even if one doesn't have money for a meaningful down payment, and has few assets. Indeed, sub-prime lending is making a quick comeback as Washington, DC turns the screws on banks to keep the money flowing.

The need to keep the easy money flowing stems from these relentless increases in home prices. If asset prices continue to climb, the thinking goes, we just need to keep shoveling more money to borrowers to get them in a house. And then, once they have a house, they'll spend a bunch of money and the economy will take off.

Unfortunately for the borrowers, however, this line of thinking means that the next time a recession comes along, they'll quickly become underwater on their home loans and find themselves trapped. The drive toward low down payments and subprime lending makes it far more likely that borrowers will find themselves with a house they can't sell for as much as they owe. Or, the homeowner may simply continue living in a home where he's making payments based on inflated values.

For borrowers who milk the system and just "walk away" from their homes, that's no big deal. The ones who will be punished the most, however, will be the people who play by the rules and try to make good on their mortgage payments. Yes, the lenders will suffer too, but they'll get bailed out courtesy of the taxpayers. The borrowers won't be so lucky.

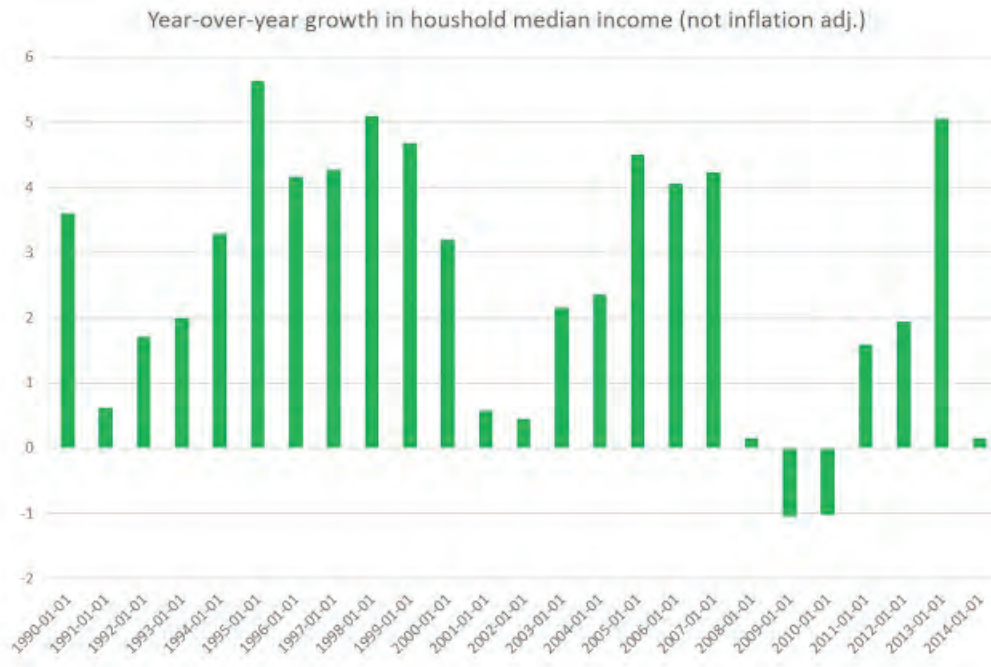
But hey, rising prices are not big deal as long as wages keep up, right? Maybe, but the big bummer here is that wages are not keeping up with home price inflation. A look at average weekly earnings suggests wages are not keeping up. Weekly earnings consistently come in at under 3 percent growth year over year (the y axis = % change):



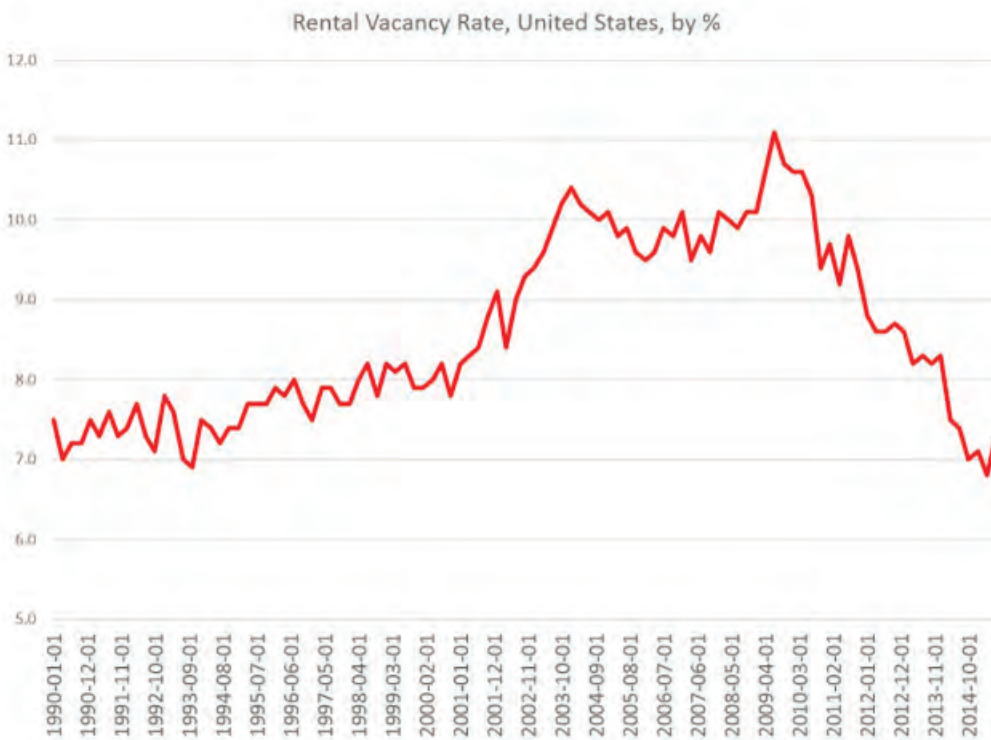
If your earnings are only increasing at a rate of two to three percent while home prices are increasing to a tune of 4 percent to ten percent, things aren't looking good for you.

And that's for individuals. If we look at median household income, we find even less growth. Indeed, since

2008, median household income has increased by less than 2 percent per year (y axis = % change):

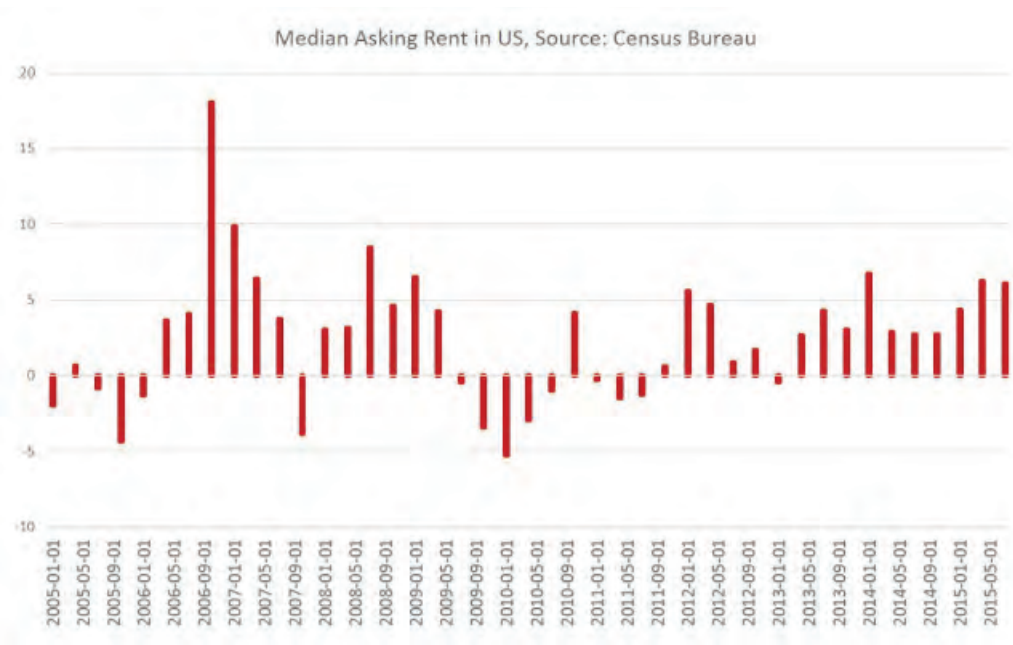


As home prices outpace wages, people who resort to more debt to afford a house. We've seen this movie before. And what if buying a house is just totally out of reach? They can just rent a house or an apartment right? Well, it's getting harder and more expensive to do that, since, we we've seen in recent years, the vacancy rate nationwide has fallen to a twenty year low:



As home buying becomes less economically attractive, vacancies in rental units go down. And this tends to then

drive up rents, although sluggish wage growth will often somewhat limit rent growth. So, not surprisingly, rent growth appears to heading back up to where it was before the 2008 financial crisis. Rent growth, according to the Census Bureau's rent measure, topped six percent during the second and third quarters of this year. Clearly, wages aren't keeping up with rent either (y axis = % change):



Naturally, it makes sense that rents should increase as home prices increase. Rental homes and owner-occupant homes are, after all, substitute goods. You're unlikely to see the price of hot dogs double, for example, without seeing an increase in the price of hamburgers as well.

At times like these, REALTORS® and home builders like to talk about how there's never been a better time to buy because rent growth will simply increase the demand for homeownership. After all, you may be able to get yourself into a mortgage where the monthly payment is lower than monthly rent.

That's swell for people who can pull that off, but it's likely that affordability is still a significant issue for many households. If it weren't, it's unlikely the homeownership rate would be falling so quickly.

Late last month, Janet Yellen testily responded to an open letter from Ralph Nader who pointed out that Yellen's policies were hurting middle- and low-income savers and investors. Yellen retorted that the Fed had rescued the economy "by making consumer purchases more affordable."

Which consumer goods to which she was referring remains unclear, but given that housing is usually a person's single largest expense, it's hard to see what's getting "more affordable." Moreover, in spite of Yellen's crowing about job growth, her policies have also worked to drive down real wages since purchasing power isn't exactly going up if housing costs go up month after month.

In truth, the Fed has little interest in the affordability of homes to ordinary people. Fed policy is really being driven right by a determination to prop up asset prices for the sake of the big banks' portfolios. If home prices collapse, so will the values of many banks' assets, along with the portfolios of the Fed's Wall Street cronies.

Comment by R. Nelson Nash - It still amazes me that nowadays the accepted definition of "homeownership" is when a person has title to a house – but has a mortgage (lien) that exceeds the value of it! That is an absurd concept. One doesn't own something until there is no debt against it.

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

The Brothers Karamazov by Fyodor Dostoyevsky

Anatomy of the State by Murray Rothbard

Wealth, Poverty and Politics by Thomas Sowell

Welcome the newest IBC Practitioners
<https://www.infinitebanking.org/finder/>

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

- [Bryan Nelson - Santa Ana, CA](#)
- [Jay Tu - Cos Cob, CT](#)
- [Olivia Pham Dabbous - Blue Bell, PA](#)
- [Charlie Jackson - Hillsboro, TX](#)
- [Richard Canfield - Edmonton, AB, Canada](#)
- [Charlie Nowlin - Birmingham, AL](#)
- [Jonathan Webster - Chandler, AZ](#)
- [Don Hooser - Kailua Kona, HI](#)
- [Allan Johnson - Prince George, BC, Canada](#)
- [Steve Parisi - Allentown, PA](#)
- [John Blalock - Birmingham, AL](#)

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.

Nelson's Favorite Quotes

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

“Above all, don't lie to yourself. The man who lies to himself and listens to his own lie comes to a point that he cannot distinguish the truth within him, or around him, and so loses all respect for himself and for others. And having no respect he ceases to love.”
– Fyodor Dostoyevsky, *The Brothers Karamazov*

Announcing Three Upcoming IBC Training Opportunities ***10-11-12-13 February, Birmingham, AL***

1. *The Whole Truth About Money Seminar* ***Examining the Pros & Cons of Common Financial Vehicles***

February, 10th, Birmingham, AL

This seminar is open to everyone, so space will be limited!

Listen to Todd Langford the developer of *Truth Concepts* software, with Kim Butler, for a daylong seminar looking in depth at *The Whole Truth About Money – Examining the Pros & Cons of Common Financial Vehicles*. This seminar is aimed at the financial professional.

[*Click Here to connect with the Whole Truth About Money seminar landing page for more details.*](#)

2. *The IBC Work Shop*

February, 13th, Birmingham, AL

The Work Shop is a four-hour IBC introductory seminar for the public.

[*Click Here to connect with the IBC Work Shop landing page for more details.*](#)

Listen to R. Nelson Nash, the creator of the *Infinite Banking Concept*, and best-selling author of the classic *Becoming Your Own Banker* live in Birmingham!

Nelson will be joined on stage by Robert P. Murphy, Ph.D economist, and L. Carlos Lara, authors of the book *How Privatized Banking Really Works*.

Do you have the feeling that there is something wrong with today's financial environment?

Do you feel that you are not in control of your money, and wonder who is?

If you could do something about it, then would you?

If you answered "yes" to these important questions, then you are not going to want to miss the IBC Work Shop!

[*Click Here to connect with the IBC Work Shop landing page for more details.*](#)

3. The IBC Practitioners Think Tank Symposium

February 11th and 12th, Birmingham AL

The *IBC Practitioner Think Tank Symposium* is an invitation only event for Member IBC Practitioners.

Because Nelson has publicly announced that he will no longer lead his ground-breaking *Becoming Your Own Banker* Seminar after November, 2016, I encourage all IBC Practitioners to make every effort to attend this year's Think Tank and spend some quality time with Nelson.

This year we are encouraging IBC Practitioner *Students* to attend as long as they also register for, and take the course final exam prior to the start of the event *or* take the exam *at* the Think Tank event venue during one of two exam sessions offered either on the afternoon of the 10th or the morning of the 11th. Once the exam is completed and graded (passing score is 80%), annual membership applications will be taken, then new members will attend the Think Tank. Any IBC Practitioner Student that decides to take advantage of this opportunity will have to register and pay for the Think Tank and register for the final exam session before arriving in Birmingham.

IBC Practitioners and Students, please use your restricted website dashboard page to access the Think Tank landing page which contains the agenda, registration pages and discount coupons.

NOTE: We are offering discounts to IBC Practitioners and students for *The Whole Truth About Money* seminar that enable them to attend the seminar for \$200 single, or \$250 couples. The regular cost for the seminar is \$499 for single attendance or \$599 for couples. The discount coupons are on the IBC Practitioner or Student restricted dashboard website page; sign in the www.infinitebanking.org then go to your student or practitioner dashboard and look for *The Whole Truth About Money* discount coupons. If you are planning on attending the Think Tank and would like to take advantage of this opportunity to learn from Todd and Kim, I encourage you to register for the seminar quickly.

NOTE: We encourage IBC Practitioners to stay over in Birmingham on Saturday, the 13th to join Nelson, Dr Robert Murphy and Carlos Lara at the *IBC Work Shop* at no additional cost. We are also offering our Practitioners discount coupons for the *Work Shop* that can be used for clients or prospects. The discount coupon is on your restricted dashboard website page; sign in the www.infinitebanking.org then go to your student or practitioner dashboard and look for *Practitioner IBC Work Shop Discount Coupons*.