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ABOUT LARA & MURPHY

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"The great inflations of our age are not acts of God. They are man-made, or to say it bluntly, government-made. They are the offshoots of doctrines that ascribe to governments the magic power of creating wealth out of nothing and of making people happy by raising the 'national income.'"

— *Ludwig von Mises*

In the introduction to Mises' book, *The Theory of Money and Credit,* Murray Rothbard explains that many leading economists of his era were using Mises' theory of the business cycle as a way to explain the Great Depression, *"a depression that Mises had anticipated in the late 1920s."*

Right about the same time this Misesian insight was spreading throughout England and the U.S., the Keynesian revolution of the late 1930s was sweeping the economic world, *"converting even those that knew better."* John Maynard Keynes, with his 1936 publication, *The General Theory of Employment, Interest, and Money,* managed to repackage and sell unsound economic views of "expansionism" and "inflationism" by dressing them up in impressive new language. Unfortunately, it established a foothold that would later lead to unfortunate circumstances.

Keynes's ideas not only beguiled smart economists, they were also welcomed and embraced by politicians in particular and all those who never considered the far-reaching consequences of such views. As we even see in the writings of today's famous Keynesians—such as Paul Krugman—there is precious little investigation as to *why* the economy might find itself in a slump. No, the urgent recommendation is for the government to simply spend money—and it doesn't even matter on *what*—in order to restore "full employment."

Well, we can now see the long-term effects of such short-sighted thinking. The stacking up of debt upon debt all these many years is now obvious to us all, yet only a few recognize it as the consequences of the Keynesian framework.

When President Nixon closed the international gold window in 1971 enabling all central banks of the world to print money from nothing without the gold standard's restraints, Keynes's ideas escalated all the more into creating the mountain of worldwide debt we have today.

You can superficially cover up a multitude of sins, but only for so long. Eventually there is a day of reckoning. The more people who come to recognize this, the sooner they can stop being a part of the problem and move toward reversing the current trend. Through our educational efforts we remain optimistic in our expectations that this goal will one day be reached. With your continued support we know we can. Thanks for all that you do in helping us.

Yours truly,
Carlos and Bob

State Tax Tricks

HIGH-TAX STATES CONSIDER MEASURES TO DEFEAT DEDUCTION LIMITS

One of the most controversial elements of the recent federal tax overhaul was a $10,000 cap on the state and local taxes that could be deducted. In response, some state governments are reportedly mulling plans that would allow their high-income residents to avoid a huge increase in their federal tax bill, while continuing to fund state and local governments.

For example, suppose a resident of California were allowed to make “charitable donations” to the local hospital, public school, and fire department, in lieu of his normal state-level income tax? Properly calibrated, this trick would allow the state and local governments to get the same cashflow from their residents, while the individual could fully deduct the donations on his federal taxes.

According to a CNBC story by Dan Mangan, if just five states adopt these types of measures, then the federal deficit over the next eight years will be $154 billion larger than originally estimated.

If nothing else, it will be fun to watch the reversed political roles as this all plays out. Liberal Democrats will be forced into defending gimmicks so that rich people can avoid paying more in taxes.

Ultimately, the only way to end these shenanigans is to lower the *rates* of federal taxation so that people don’t scramble to find each new loophole. As Nelson Nash always warns, don’t be thankful for the government for giving you relief (in the form of tax exemptions) from the very problem it created.

Does a Goodfriend Lie?

FED GOVERNOR NOMINEE CAUGHT FIBBING TO SENATE

Jerome Powell was confirmed by the Senate (84 to 13) as the next Fed chair, to be sworn in on February 3. We will surely have more to say about the new chair in upcoming issues, but for now we

bring your attention to an interesting tidbit that the Mises Institute’s Tho Bishop caught, concerning

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Marvin Goodfriend, who was nominated to be a new Fed Governor: During his confirmation hearings, Goodfriend was asked by Nevada Senator Catherine Cortez Masto if he still supported his previous idea of taxing currency.

Goodfriend assured Senator Masto that he would *not* support such a policy today, and sought to defuse the question by responding, *"I wrote a paper in 1999 for a Federal Reserve System conference which asked what would happen if interest rates went to zero…I didn't propose that, that was an academic paper…It was not a proposal. It was an emergency matter we considered as a matter of thinking about these things before anyone ever imagined anything could happen like that."*

Yet, as Tho Bishop documents, this is simply false. As recently as 2016, Goodfriend presented a paper at the annual Jackson Hole Fed conference in which he clearly acknowledged that the "zero lower bound" was a problem facing policymakers in the real world, and considered various strategies to deal with it. The paper was titled, "The Case for Unencumbering Interest Rate Policy at the Zero Bound."

It's true, if you skim the paper you will not find Goodfriend literally saying, "I want to tax currency." Yet in context, his jargon clearly supports policies that will discourage people from holding cash, to make them willing to leave deposits in the banking system earning negative nominal interest rates.

For those innocent readers who don't realize just how serious today's (New) Keynesian economists are when it comes to the war on cash, look up Greg Mankiw—who served under the George W. Bush Administration—and his April 18, 2009 New York Times article entitled, "It May Be Time for the Fed to Go Negative." In that column, Mankiw without irony congratulates one of his Harvard grad students for proposing that every year, the Treasury picks a random number from 0 to 9, and then any paper currency ending with that digit in the serial number is no longer legal tender.

Some readers may think that we exaggerate the threat to "sound money" coming from Keynesian economics. No, their framework leads them to literally propose destroying our money in order to stimulate spending.

Does China Trust Treasuries?

CONFLICTING REPORTS SIGNAL POSSIBLE MOVE IN CHINESE PURCHASES

Bloomberg reported in early January that Chinese officials had apparently signaled a change in attitude, whereby they would slow or even halt their purchase of more US Treasury securities. (The latest official numbers, as of November 2017, show China as the largest foreign holder, owning $1.2 trillion in Treasury debt.)

Once the story broke, causing anxiety in the bond markets, Chinese officials quickly pooh-poohed it. If it turns out to be accurate, it will be one more problem confronting the Treasury: With the Fed unwinding and the new tax cut increasing the budget deficit, who is going to sop up Uncle Sam's IOUs?

THE INVERTED YIELD CURVE AND AUSTRIAN BUSINESS CYCLE THEORY

BY ROBERT P. MURPHY

There is a well-known but poorly understood phenomenon in financial markets, according to which an "inverted yield curve" has an uncanny ability to "predict" an impending recession. Indeed, depending on how we define our terms, the yield curve has correctly called every recession in the last 50 years, with no "false positives."

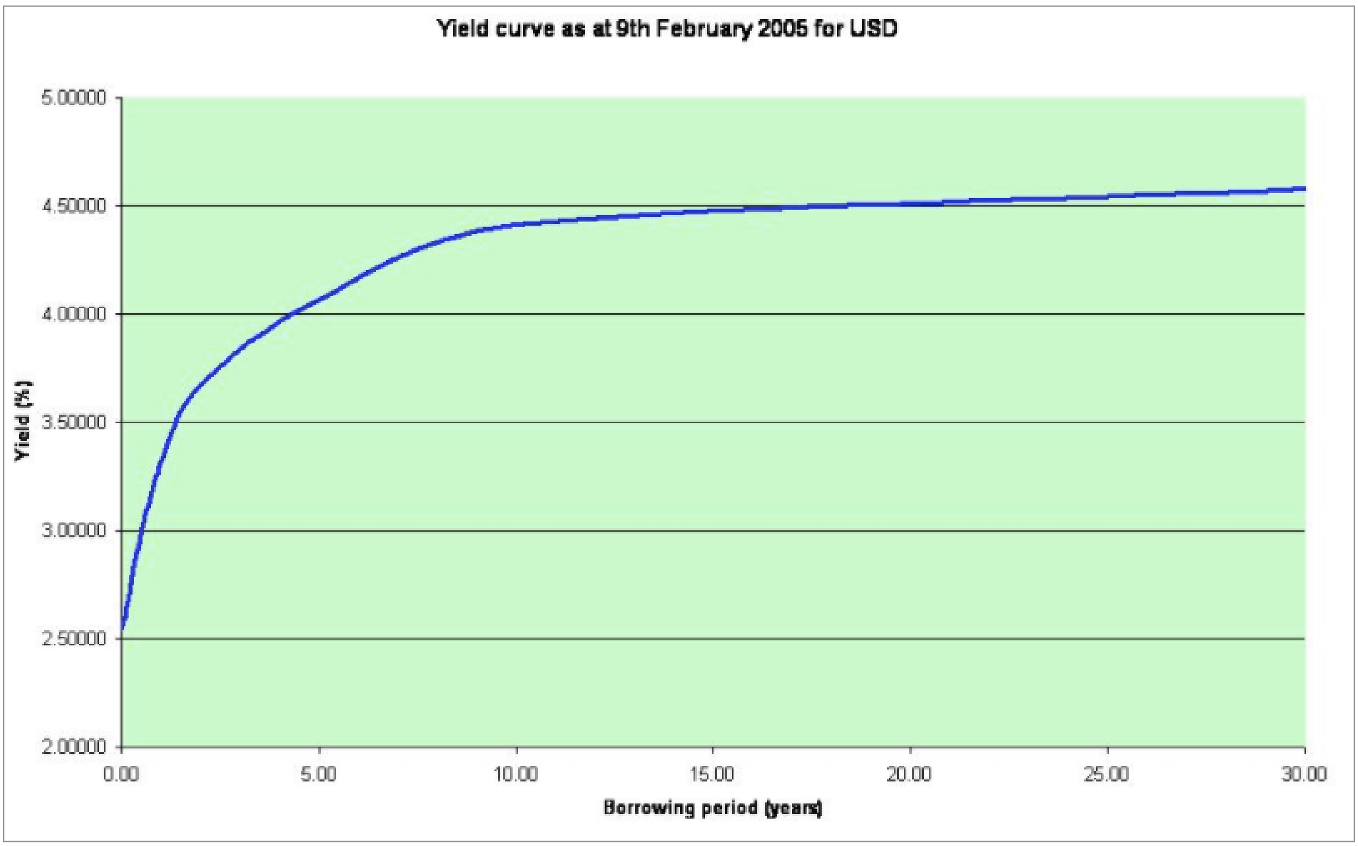
In this article, I'll describe what this historical pattern is, and then I'll show that textbook Austrian business cycle theory *creates* this result as a byproduct.[1] Finally, we'll look at the recent trends in Treasury yields to see that our official "expansion" period of (tepid) growth may be soon at an end.

AN UPWARD SLOPING YIELD CURVE

In finance, the "yield curve" refers to a graph of yields on US Treasury securities, with the maturity on the x-axis and the annual yield on the y-axis. In modern times, a "normal" yield is upward-sloping, as we show in Figure 1.

Back in 2005, the yield on short-term T-Bills was a little over 2.5%, while the yield on 20-year Treasuries was about 4.5%, and so on. The intuitive explanation for this "normal" pattern is that investors are taking on more risk by tying their money up for lon-

Figure 1. Upward-Sloping Yield Curve for USD, as of February 9, 2005



Source: Wikipedia entry for "yield curve"

ger periods (by buying longer-term bonds), and so they have to be compensated with a higher annual yield. Someone who wants to remain very liquid would keep rolling his money over into short-term bonds, buying new T-bills when his current ones mature. Such an investor won't get caught with his pants down if interest rates suddenly spike.

In contrast, someone holding (say) 30-year Treasuries is earning a higher yield, but is exposed to much greater risk. Because the duration of those bonds is much higher, the market price of his portfolio is much more sensitive to movements in interest rates.

An "inverted yield curve" has an uncanny ability to "predict" an impending recession.

For a numerical example, suppose Investor A is holding $10,000 worth of 1-year Treasuries when they are currently yielding 2.5%, while Investor B is holding $10,000 worth of 30-year Treasuries when they currently yield 4.5%. Further suppose that the *entire yield curve* suddenly shifts upward by one percentage point, and that this takes everybody by surprise. In other words, all of a sudden, *newly issued* 1-year Treasuries are auctioned off yielding 3.5%, while new 30-year Treasuries fetch 5.5%.

In this case, the market price of the existing bonds will fall. (Remember that bond prices and yields move in opposite directions.) But the price of shorter-term bonds will only fall a little, while the price of long-term bonds will fall much more. That means Investor A will take less of a hit by the surprise news than Investor B.

With our numerical example, when short-term rates jump from 2.5% to 3.5%, Investor A's $10,000 worth of 1-year Treasuries will fall to $9,903, a drop of about 1 percent in market value. In contrast, when long rates jump from 4.5% to 5.5%, Investor B's $10,000 worth of 30-year Treasuries will drop to $8,547, a fall of about 15 percent in market value. When you think through the cash flows involved with the two types of assets, you will see why the one-percentage-point increase in the discount rate *applied* to those future cash flows has a bigger impact on the long bond than on the short one.[2]

In modern times, with central banks and especially with the abandonment of the classical gold standard, a "normal" yield curve is upward sloping. With volatile price inflation rates, nominal interest rates are themselves very volatile. A standard view is that investors consider what cumulative yield they could get by rolling over short-term bonds over and over, and then adding a bit of a premium in order to compensate for the extra risk involved if they are going to buy long-term bonds. Thus in "normal times," when short-term rates are average, then the yield curve is rising.

THE "PREDICTIVE POWER" OF AN INVERTED YIELD CURVE

In contrast, it occasionally happens that we have an abnormal situation where short-term yields are higher than long-term yields. This is what people mean by an *inverted yield curve.*

It occasionally happens that we have an abnormal situation where short-term yields are higher than long-term yields. This is what people mean by an *inverted yield curve.*

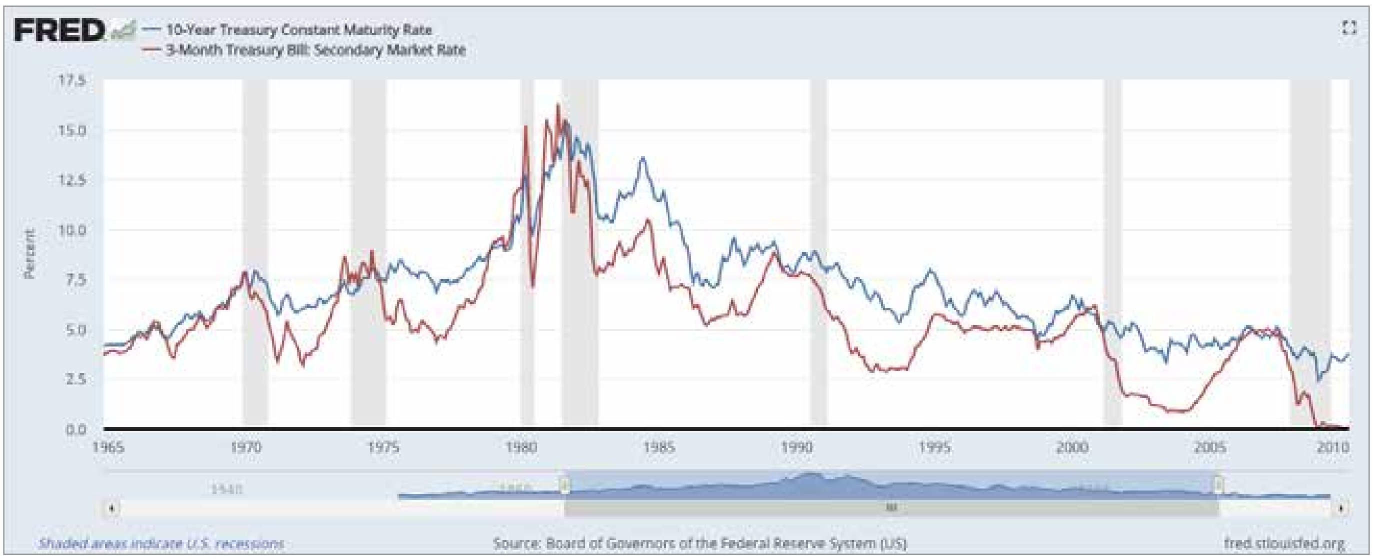
What's even more interesting is that, if you define your terms appropriately (and consult my paper, linked in the endnotes, for more details), an inverted yield curve (at least in modern times) has an uncanny ability to "predict" an impending recession. As Federal Reserve economist Arturo Estrella wrote in a 2005 paper, "The yield curve has predicted essentially every U.S. recession since 1950 with only one 'false' signal, which preceded the credit crunch and slowdown in production in 1967."[3]

Not only has there only been one false positive (which even here was still associated with a slowdown), but every actual recession in this timeframe has had an inverted (or nearly inverted) yield curve precede it. In other words, there are no false negatives either when it comes to the yield curve's predictive powers in the postwar period.

We can use the following chart from the St. Louis Fed to illustrate the sense in which an inverted yield curve "predicts" an impending recession, over a 45-year period.

Notice that during "normal" times (in the white sections between the gray recession bars), the 10-year yield (blue line) is typically above the 3-month yield (red line). But then

Figure 2. Yields on 10-Year and 3-Month Treasury Securities, 1965 – 2010



before each of the recessions (indicated by the gray bars), the red line however briefly is above the blue line.

ABCT NATURALLY EXPLAINS THE PATTERN

There have been attempts to explain the above pattern using mainstream (what's called "neoclassical") theory, having to do with investors predicting the impending interruption to income and then using "consumption smoothing" to explain what happens to interest rates. However, I don't think that story really makes sense. (See my paper for more details.)

In contrast, *if* you already believed in Austrian business cycle theory, then this pattern of an inverted yield curve "predicting" a recession pops right out.

Remember, the Austrian theory says that the banking system (in modern times, fueled by the central bank) floods the market with artificially cheap credit, causing an unsustainable boom. Now, it's critical to realize that when we say the central bank "pushes down interest rates," we are referring more to the *shorter-term* rates. The Fed has a lot more influence on, say, the 3-month T-bill than it does on the 30-year Treasury bond. Even if the Fed prints lots of money to buy up 30-year Treasuries, its effort to push down their yields are (at least partially) offset by all the new money pushing up long-term price inflation expectations, which helps prop nominal interest rates up.

Let's put it this way: In the past decade, central banks around the world were able to push short-term interest rates to zero or even below zero. But 30-year bond yields never got that low.

So now, just spin out the implications of what we've said. When the central bank floods the financial markets with cheap credit, that causes an unsustainable boom that is associated with relatively low short-term interest rates, and higher long-term rates—in other words, a "normal" upward-sloping yield curve.

> *If* you already believed in Austrian business cycle theory, then this pattern of an inverted yield curve "predicting" a recession pops right out.

But at some point the central bankers get cold feet, and they slam on the brakes. They cut off the flood of cheap credit, which causes interest rates to spike. But which interest rates? Why, the short-term ones. Longer-term rates might actually *fall* slightly, because the slower monetary inflation means price inflation in the long run will be lower.

Look back at Figure 2. Notice that when the yield curve "inverts," it's not because long rates (the blue line) fall below the red line. Rather, it's because short rates rise and overshoot the blue line. In other words, the "in-

Figure 3. Yields on 3-Month and 10-Year Treasury Securities, January 2003 – January 2018

verted yield curve" occurs when the central bank slams the brake on money-printing, causing short-term interest rates to spike. But we already know from standard Austrian theory that this causes entrepreneurs to realize they've made mistakes during the boom years. This is what triggers the crash and the start of the recession.

The "inverted yield curve" occurs when the central bank slams the brake on money-printing, causing short-term interest rates to spike.

WILL THE YIELD CURVE INVERT IN 2018?

We can't know for sure, but many analysts are predicting that the yield curve will eventually invert this year. Here's a chart of the 3-month and 10-year yields over the last fifteen years:

This "zoomed in" shot clearly shows how a "normal" yield curve in the mid-2000s went hand in hand with the unsustainable housing bubble, and then the Fed's tightening led to an inverted yield curve in late 2006 through early 2007.

More recently, we've had a "normal" yield curve ever since the Great Recession. But with the Fed's tightening cycle—which began in December 2015, seven years after we'd hit a 0% fed funds rate—the spread between the 3-month and 10-year Treasury yields has been steadily shrinking.

CONCLUSION

Standard Austrian business cycle theory gives a very natural and intuitive explanation for why an inverted yield curve "predicts" an impending recession. If and when the yield curve inverts in the near future, even more analysts will agree with our take that the Fed has blown up an unsustainable asset bubble.

If you haven't already watched it, I encourage you to check out the video Carlos and I made on "How to Weather the Coming Financial Storms," available at: https://lara-murphy.com/video0916/

Standard Austrian business cycle theory gives a very natural and intuitive explanation for why an inverted yield curve "predicts" an impending recession.

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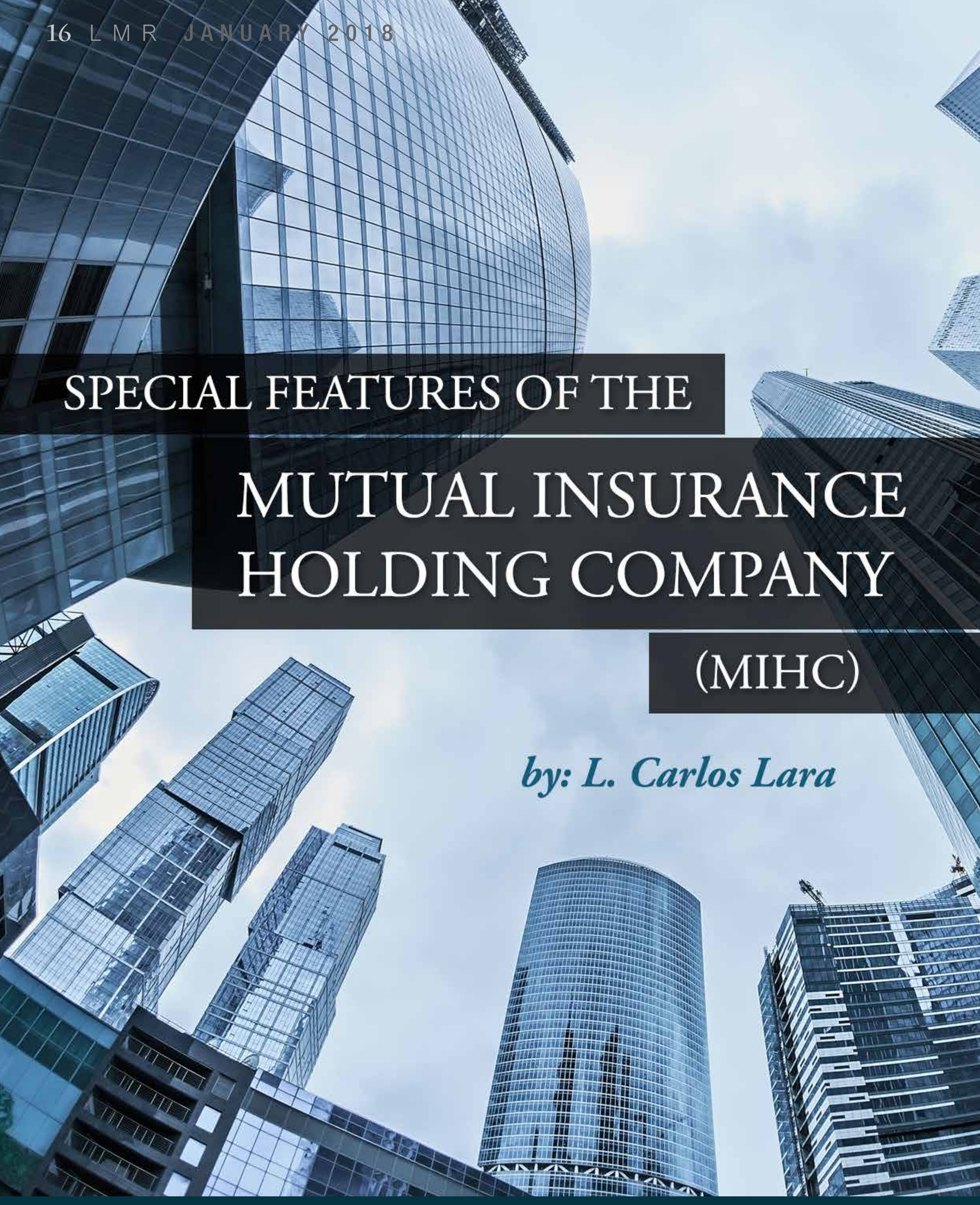
References

1. Much of the material in this LMR essay comes from Part IV of a paper I wrote in the summer of 2010 for a Liberty Fund conference on advances in Austrian theory, available at: http://consultingbyrpm.com/uploads/Multiple%20Interest%20Rates%20and%20ABCT.pdf.

2. Specifically, I'm assuming the 1-year Treasury is zero-coupon, while the 30-year Treasury provides an annual interest payment as well as return of the principal at the end. So, in order to make the holdings of 1-year Treasuries worth $10,000 in the present, when the yield is originally 2.5%, they must have a face value of $10,250 (payable in 12 months). Then when short rates jump to 3.5%, that $10,250 available in 12 months now has a present value of $10,250 / 1.035 = $9,903, a fall of about 1 percent in market value. For the 30-year Treasury issued at 4.5%, the initial $10,000 investment entitles you to an annual flow of $450 interest payments, plus the $10,000 back in the 30th year. (If you use Excel to write out the cash flows through year 30, you can see that discounting them all by 4.5% annually and summing, totals $10,000 in present value.) Then if you discount that same cash flow at 5.5%, its present value drops to $8,547, for a 15 percent drop in market value.

3. Estrella, Arturo. (2005) "The Yield Curve as a Leading Indicator: Frequently Asked Questions," Federal Reserve Bank of New York. Available at: http://www.ny.frb.org/research/capital_markets/ycfaq.pdf.



SPECIAL FEATURES OF THE MUTUAL INSURANCE HOLDING COMPANY (MIHC)

by: L. Carlos Lara

Subscribers to the *Lara-Murphy Report* have come to understand that our publication is unique in the market place in the sense that it features within its pages expert coverage of *financial markets, Nelson Nash's Infinite Banking Concept (IBC),* and *Austrian Economics.* In rendering this service our readership receives monthly in-depth articles, interviews, and current news reporting regarding these three subjects that helps them navigate a constantly changing economic environment. As always our number one goal is *education.*

As always our number one goal is education.

It is with this in mind that I wish to take a closer look at the *Mutual Insurance Holding Company (MIHC),* which is a topic that is relevant to IBC practitioners and all those who may be thinking of implementing IBC policies in the near future. It is especially important now because Bob and I repeatedly stress that we are in the midst of an unsustainable boom that *will* crash and IBC offers, among other benefits, an exit strategy from the market collapses that are heading our way.

In fact, I will go as far as to say that in my estimation we can expect to see a rush for these type of instruments once it dawns on people that the euphoric market highs are coming to an end. In preparation for that event we want our readership to be well informed on what they can expect when implementing a specially designed IBC policy.

Going hand in hand with this forward guidance we have also repeatedly stressed that specially designed IBC policies should be acquired from a life insurance carrier whose policyholders are also the owners of the company. Of course, the insurance company that best fits this description is the mutual. Alternatively, the ownership qualification excludes the stock insurance company. But what many consumers don't know is that there also exists a *"holding company"* structure that houses a stock company within it that also fits the *"owned by its policyhold-*

ers" description. This type of infrastructure is known as the Mutual Insurance Holding Company, (MIHC).

The reason this structure is not as widely known as the other two is partly due to the fact that the MIHC structural conversion is relatively *new* having made its first appearance in 1995. Although nearly all states now have statutes regulating mutual conversions to a MIHC structure, comprehensive information about these statutes and the many unique accounting issues that arise when a mutual insurer converts to an MIHC continues to remain beyond the reach of the average consumer and advisor.

Critical to this understanding is the regulatory framework that has been adopted for adequately protecting the on-going *ownership* interest of policyholders in the MIHC, which is its distinguishing feature. In fact, their adequacy has helped blur the lines of notable differences between the two structures. Yet it is these problematic differences and how regulators have since resolved them is what I wish to shine a spotlight on, in order to provide the reader a more comprehensive and easy to understand explanation of why we can include the MIHC structure as being just as ideally suited for IBC purposes as the pure mutual company.

Before delving into the various aspects of these structures there is this one last consideration to also take into account. Most of us would agree that as consumers we are guided in our insurance buying decisions by price considerations, but also by *brand* names. What I mean is that rarely do we consider company structures, charters, or bylaws when selecting an insurance carrier.

When we think of insurance companies

such as *New York Life, Mass Mutual,* or *Nationwide* we recognize the established brand. These are names we are familiar with, but we can't really know for sure which one is a mutual and which one is an MIHC. Nor are we aware that when considering an IBC-type policy to meet our cash flow management needs not *all* mutual and MIHC structures have yet adopted the best specially designed features and rider flexibilities for practicing IBC. To determine which is which you will need to talk to an expert insurance professional that truly understands the theory of IBC and be able to match you with the adequate insurance carrier.

This is why we also stress that you should look to our list of *authorized* IBC financial professionals for IBC implementation guidance. These graduates of our training course can guide you to the best mutual and the best MIHCs that work best for practicing IBC right now. Here is where you can find an *Authorized IBC Practitioner:* https://infinitebanking.org/finder/

Background and Introduction to the MIHC

(In this article I have relied heavily on two outstanding sources, which I have condensed considerably. One is a 94-page publication by the National Association of Insurance Commissioners (NAIC) entitled, "Mutual Insurance Holding Company Reorganizations," December 7, 1998.[1] The other publication is an 11-page report from the Society of Actuaries: Issue 41 February 2000.[2] It is recommended that these be read for a much more thorough understanding of this subject. Information for accessing these two reports can be found in the footnotes. Any direct quotes from each will be italicized and marked by its corresponding report and page number.)

You should look to our list of authorized IBC financial professionals for IBC implementation guidance.

Historically, issuers of insurance policies have been either mutual or stock companies going back over 200 years. In a stock company management control rests with the stockholders who in turn elect a board of directors who in turn select the executives that run the company.

In a mutual the policyholders own the company and participate in the election of the company's board of directors who in turn select the executives that run the company. This ownership privilege also gives the policyholders the contractual rights to share in the dividends declared by the board of directors. When the company experiences favorable expenditures in its operations, these dividends represent a return of excess premium and or a build up in surplus for the company.

One big difference between a stock and mutual insurer is that a mutual company cannot sell shares of stock. Consequently, the mutual has to rely on retention of earnings or borrowing from its own surplus in order to raise capital. Historically there have been only two forms of restructuring alternatives to compensate for this disadvantage: either a *merger* or complete *demutualization.* Demutualization converts a mutual to a stock company completely. (i)

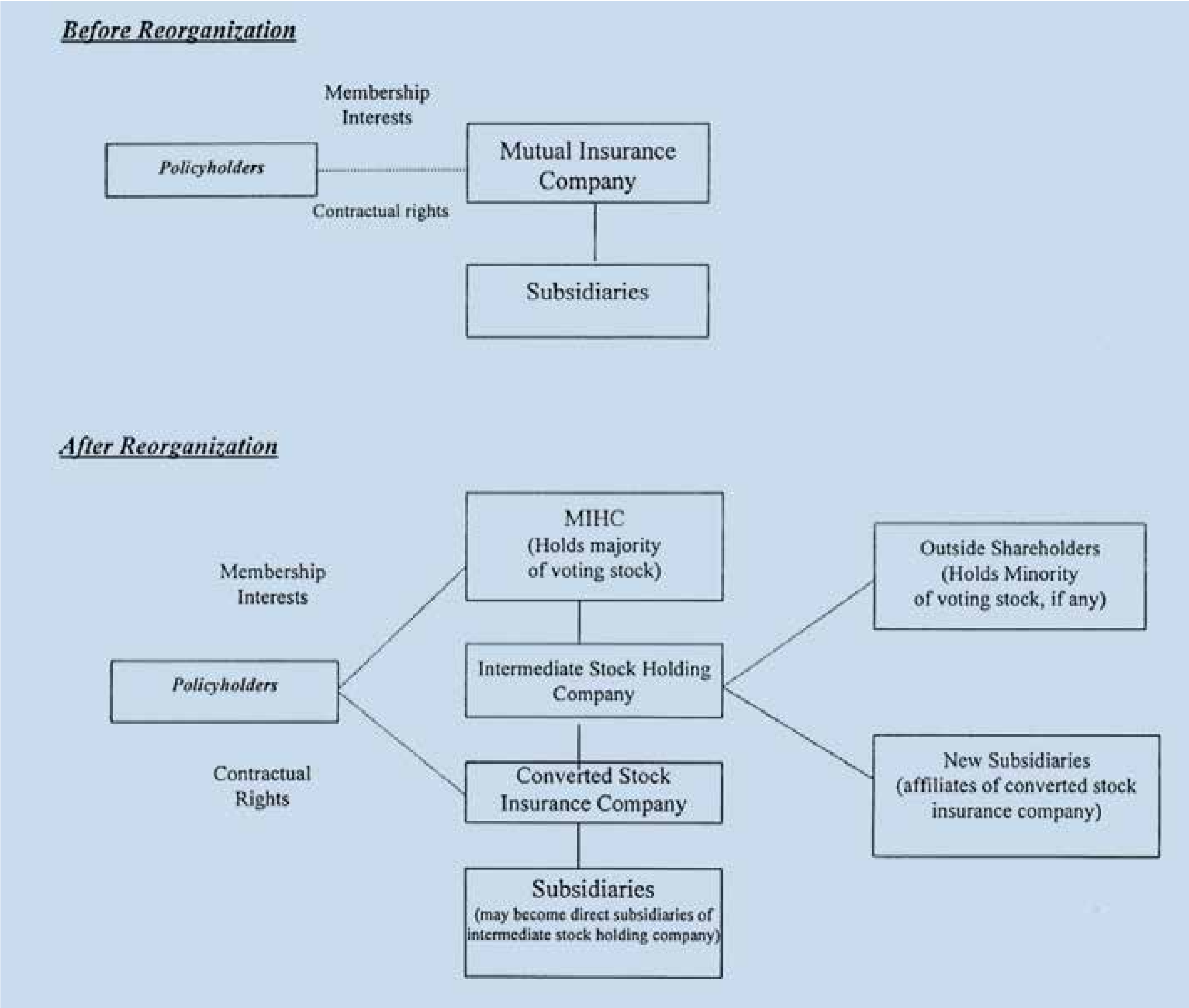
The demutualization process is lengthy, arduous and expensive because all the equity and surplus interest in the mutual must be exchanged for shares of stock. The regulatory review process is time consuming in that it has to insure that the policyholders receive fair value for their interest in the company. Nevertheless many mutual insurers, large and small, have completed the process successfully especially during the last three decades. Today these carriers are now simply stock companies. As stock companies they do not have *"participating"* life insurance products that pay dividends from the profits of the company to its policyholders.

By August of 1998 the newest restructuring alternative for a mutual, the MIHC, passed legislation in twenty-one states and the District of Columbia. In spot-checking other sources while writing this article I noticed that most all states have come on board in support of MIHC legislation. The main advantages for MIHC laws is that they provide the mutual companies greater access to capital markets in order for them to enhance their efficiency of operations without having to go through a complete demutualization while also maintaining the advantages of a mutual company—a most unique structure.

In the past twenty years many mutual companies have opted to reorganize in this manner. The conversion is made into a stock company, however, the converted stock insurer becomes a wholly owned subsidiary of the MIHC and the policyholder's ownership interests are transferred to the MIHC.

Interestingly, during the conversion process none of the policy terms and contractual obligations, including policyholder dividend rights will change. Most importantly, and I repeat again, control of the converted stock insurer remains vested with the policyholders as sole owners of the MIHC.

"The following depicts a mutual insurance company before and after a MIHC reorganization."



Regulation of the MIHC

"It is critical to understand that ownership rights and interests are determined by state laws, the mutual insurer's charter, its by laws, and the individual contract."

—Mutual Insurance Holding Company Reorganizations, Page 19

To keep this article from becoming too lengthy and getting too technical the following five paragraphs represents what I think are the most important aspects of the MIHC structure and how states regulate them currently.

1. A MIHC structure does not directly issue insurance contracts, but the converted stock company does; nevertheless the MIHC is state regulated as though the entire infrastructure were an *insurer*. This applies even in cases of rehabilitation and liquidation. "In addition, the statutes contain 'reach-up' provisions intended to make the assets of the MIHC available to fulfill contractual obligations to policyholders and other creditors in the case of insolvency in the converted stock insurance company." Other devices include "a requirement that the MIHC grant a security interest in all its assets to the converted stock insurance company and statutory provisions which would require that assets of the MIHC be held in trust by the MIHC for the benefit of policyholders." *MIHC Reorganizations, page 45*

2. A mutual insurance holding company (MIHC) structure is owned by its policyholder members. Furthermore, participation by non-members is prohibited at the MIHC level. The MIHC is also subject to the state's insurance holding company act, which has oversight over mergers, authority for examinations and annual financial reporting requirements.

3. MIHC laws provide mutual insurance companies with greater access to equity capital markets. In order to protect policyholders from outside stockholders a MIHC must maintain majority ownership and control by at least "51% of the voting shares of the converted stock insurance company and any intermediate stock holding companies." MIHC Reorganizations, Page 38. In addition to this the states limit participation by Directors and Officers with regards to stock options and percentage of stock ownership in order to limit opportunities for personal gain.

4. Members of the MIHC have dividend rights. "The MIHC must receive a pro rata share of stockholder dividends from subsidiaries. Insurance regulators require that the insurer include in its Plan of Reorganization the methods to be used to ensure that excess capital of the MIHC inures to the exclusive benefit of MIHC policyholder members. For example, excess capital may be contributed to the stock insurer for premium credits or reductions, policy dividends, or increases to surplus." In this manner dividend scales are maintained. However, membership interest in the MIHC is not considered securities under state law and SEC rulings. "The SEC's no-action position does not prevent MIHC members from realizing the benefit of earnings by the MIHC. Instead, the SEC's position should be interpreted as requiring the insurance regulator's approval or direction for such distributions." *MIHC Reorganizations, Page 41*

5. With regards to protection of policyholder dividends at the onset of a

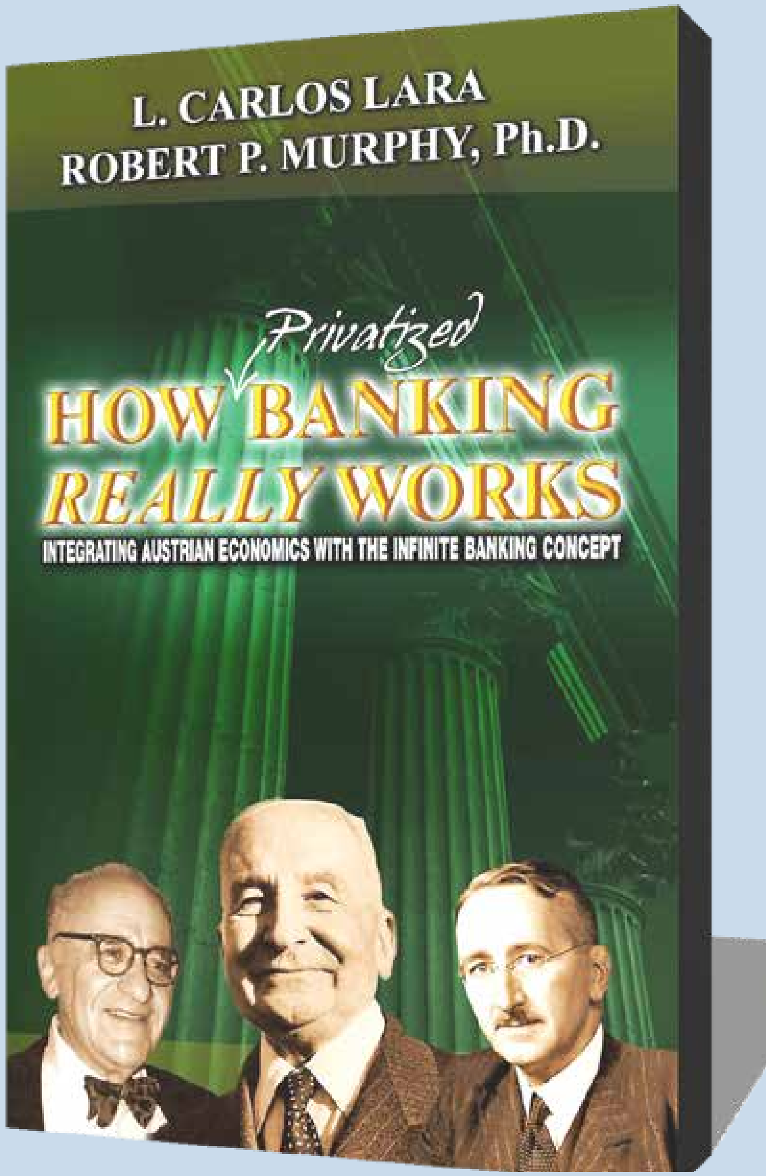
conversion, (particularly with respect to "participating" life insurance policies so that they are not reduced to benefit stockholders), regulators have adopted two methods. One method is called the *"Closed Block."* This is an allocation of assets that is set completely apart, together with its premiums for those policies, its investment earnings, its expenses and continuation of its dividend scale that will be sufficient to maintain the payments of guaranteed benefits on that specific closed block of business. The MIHC must carry the closed block decades into the future until all benefits have been fulfilled.

The other method is known as the *"In Accordance With Past Practices."* This method is more appropriate for smaller insurance companies and regulators establish a set formula from the experience of previous years and then hold the company to that formula going forward.

After careful consideration of the extent of the mutual conversion process to a MIHC these five regulations provide reasonable assurance that, provided the specially designed features of an IBC policy are available with a particular MIHC, they are an excellent choice for practicing Nelson Nash's *Infinite Banking Concept (IBC).*

Conclusion

The MIHC structure is a relatively new mutual conversion process—an alterna-



Since the MIHC reorganization retains the same mutual identity before and after the conversion, practicing IBC with a MIHC is quite permissible and offers similar safeguards to the pure mutual.

tive to a complete demutualization. Since the MIHC reorganization retains the same mutual identity before and after the conversion, practicing IBC with a MIHC is quite permissible and offers similar safeguards to the pure mutual. All of the conservative and protective features we all associate with Nelson Nash's description of a dividend paying Whole-Life insurance policy are all there. The underlying main security, as in the case of the pure mutual, is that the policyholders own one hundred percent of the MIHC.

What must always be kept in mind while considering the various aspects of the MIHC in this article is that, as with *all* life companies, the *insurance death benefit* remains the primary concern of state regulators. Protecting the policyholder is the state regulator's chief responsibility. As consumers this is very reassuring.

Ironically, the IBC practitioner uses a specially designed participating Whole-Life insurance policy primarily as a *cash flow* management system. The death benefit is viewed mostly as a spectacular bonus. But this powerful combination is what makes the mutual or the mutual insurance holding company (MIHC) ideally suited for IBC.

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References

(i) The NAIC report states that in recent years some mutual carriers have been successful in tapping the equity markets by offering shares of stock to the public in "downstream" stock subsidiaries. However few mutual carriers have significant economic activity outside the insurance company to replicate that success. Consequently attracting equity capital remains difficult for most mutuals. Another negative is that the down stream stock subsidiary also increases SEC regulatory constraints.

1. Mutual Insurance Holding Company Reorganizations, National Association Of Insurance Commissioners, December 7, 1998 http://www.naic.org/store/free/MIH-OP.pdf

2. The Financial Reporter, Society of Actuaries, Issue 41, February 7, 2000 https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwjtmKfp1v7YAhVB3FMKHUDRAfkQFggnMAA&url=https%3A%2F%2Fwww.soa.org%2Flibrary%2Fnewsletters%2Ffinancial-reporter%2F2000%2Ffebruary%2Ffrn-2000-iss41-matsonwagner.pdf&usg=AOvVaw1YYzexgXuGnEWDDaxuSPwz

"The Value of Unconventional Thinkers"

Interview with David Gordon

David Gordon is a Senior Fellow at the Mises Institute. He was educated at UCLA, where he earned his PhD in history. He is the author of *Resurrecting Marx: The Analytical Marxists on Exploitation, Freedom, and Justice, The Philosophical Origins of Austrian Economics, An Introduction to Economic Reasoning,* and *Critics of Marx.* He is also editor of *Secession, State, and Liberty* and co-editor of H.B. Acton's *Morals of Markets and Other Essays.*

Dr. Gordon is the editor of *The Mises Review,* and a contributor to such journals as analysis, *The International Philosophic Quarterly, The Journal of Libertarian Studies,* and *The Quarterly Journal of Austrian Economics.*

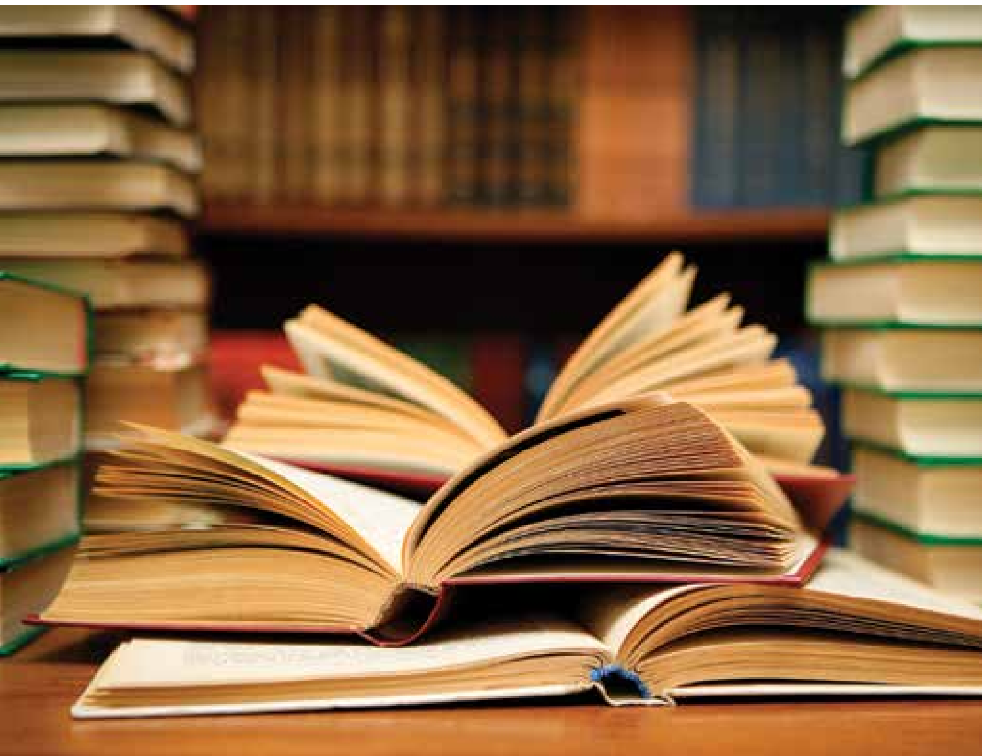
Editors' Note: David Gordon was first interviewed by the LMR in the November 2014 issue.

Lara-Murphy Report: How did you become interested in Austrian economics?

David Gordon: When I was in junior high, I used to go to Poor Richard's Book Shop in Hollywood (California), which specialized in conservative and classical liberal literature. I read Bastiat's *The Law,* Hazlitt's *Economics in One Lesson,* Mises's *Planning for Freedom* and *Human Action,* Hayek's *The Road to Serfdom,* and Rothbard's *What Has Government Done to Our Money?* and *Man, Economy, and State.* The last book had just come out in 1962, when I read it. I've continued to study Austrian economics since then.

LMR: You currently have a new collection of your essays out. What's the backstory?

DG: A great deal of my work consists of book reviews, as most of my ideas stem from reactions to other people's views and arguments. Hunter Lewis, fortunately for me, likes my work and sponsored a three-volume collection of my books and articles. Many of my reviews are negative, and now aggrieved victims of my work have a chance to pay me back in kind.



"When I was in junior high, I used to go to Poor Richard's Book Shop in Hollywood (California), which specialized in conservative and classical liberal literature."

LMR: From your collection, it was your essay on the time you took Hayek for a class that caught our attention. Can you share some of those memories?

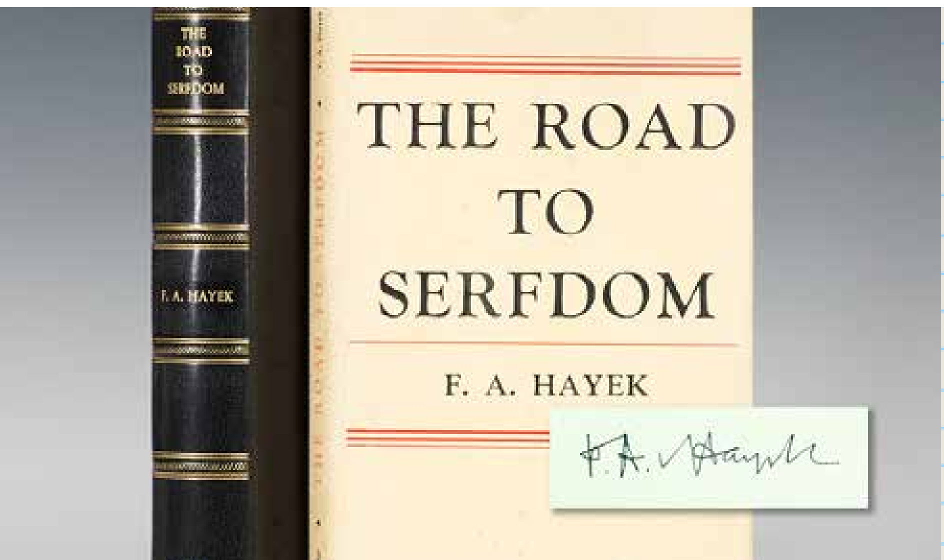
DG: Here are a couple of stories that I didn't include in the article. When *Road to Serfdom* came out, one of the nastiest attacks came from Herman Finer in his book *The Road to Reaction.* He called Hayek's book "the reactionaries' *Mein Kampf.*" Hayek told me that Finer wrote the book because he was angry with Harold Laski, a very left-leaning professor at the London School of Economics and Hayek's colleague there. He took out his resentment at Laski against Hayek.

"Many of my reviews are negative, and now aggrieved victims of my work have a chance to pay me back in kind."

Hayek had a very poor opinion of Hegel, especially of Hegel's attempts to apply his philosophy to the physical sciences. He found Hegel's long and convoluted definition of heat "very amusing."

LMR: Who are some of the thinkers (dead or alive) in Austrian economics and/or the libertarian world that you think are the most underrated?

DG: Bruce Goldberg, who converted Bob Nozick to libertarianism, has a thoughtful book on education, *Why Schools Fail,* that hasn't attracted much at-



"He called Hayek's book 'the reactionaries' *Mein Kampf.*'"

"Trump is no libertarian and a number of his policies, such as opposition to free trade, are bad. His principal value lies in opening up new possibilities for those with views outside the mainstream."

tention. Philip Wicksteed was a great economist who I don't think is read as much as he should be.

LMR: What's your take on the Trump phenomenon? Is his surprising victory good or bad for liberty, all things considered?

DG: On the whole, I think his victory has been good for liberty, in that he showed that a non-establishment candidate can win. He is unpredictable and has shaken things up in a way that libertarians can use to our advantage. Of course, Trump is no libertarian and a number of his policies, such as opposition to free trade, are bad. His principal value lies in opening up new possibilities for those with views outside the mainstream.

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Note: The economists and financial professionals interviewed in the LMR are given the freedom to express their views, without necessarily implying endorsement from the editors.

EVENTS & ENGAGEMENTS

NOTE: MANY OF THESE EVENTS ARE OPEN TO THE PUBLIC. CONTACT US FOR FURTHER DETAILS.

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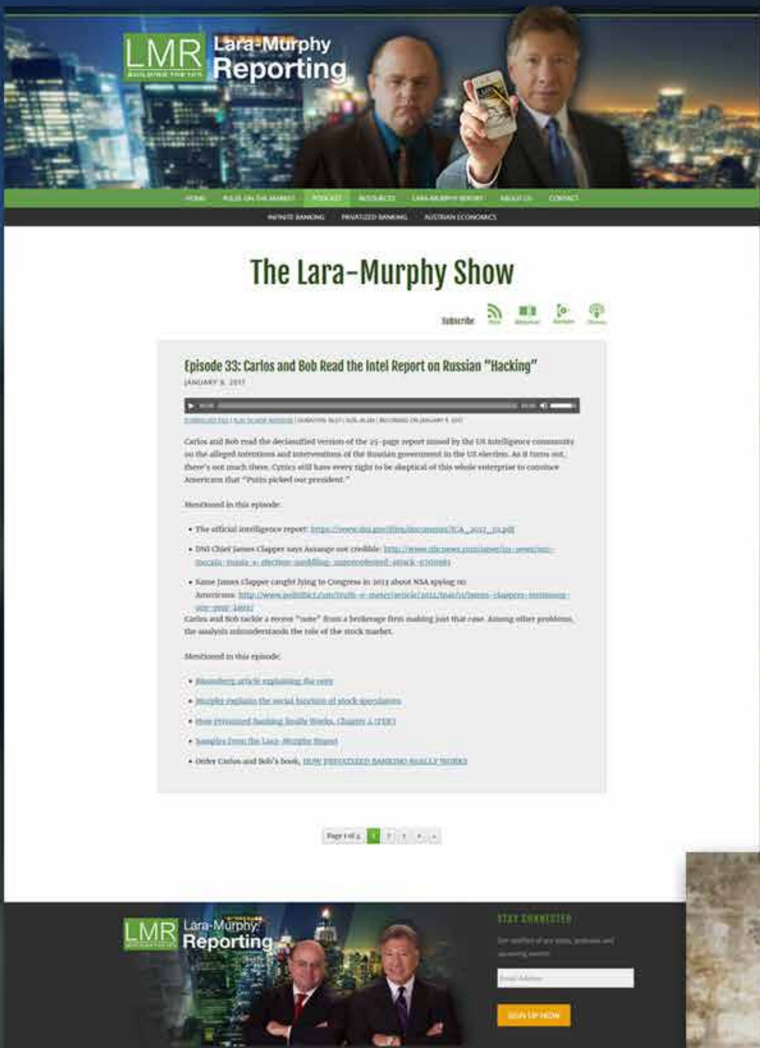

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