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An IBC Tax Strategy Part III

By L. Carlos Lara

[Reprinted from the August, 2017 edition of the *Lara-Murphy-Report, LMR*]

[*An IBC Tax Strategy Part I* is in the August, 2017 edition of *BankNotes*, *An IBC Tax Strategy Part II* is in the September, 2017 edition of *BankNotes*, visit the online *BankNotes Archives* to find them]

In this third and concluding article about an IBC Tax Strategy, a strategy that I personally use, I would like to shift gears and steer our thoughts in the direction of some very important rules that govern life insurance policy loans. As individuals that practice IBC these discretionary guidelines with regards to policy loans should be fully understood, whether we are members of the general public, or financial professionals. This is the main reason that I reiterated several times in the preceding two articles that this particular tax strategy was not for novices, or those new to IBC.

To clarify, let me put it to you this way. We must never forget that beyond all of the outstanding attributes of a properly designed dividend-paying Whole Life insurance contract and how it works, policy loans are a completely separate undertaking and are a central feature of the *Infinite Banking Concept*. In other words, IBC is never really being fully practiced without policy loans being utilized at some point in the process. Consequently, knowing all the ins and outs of how policy loans work is crucial to getting the most out of practicing IBC. The good news is that there are only a few critically important best practice guidelines that we must know and understand. These few principles are the subject matter of this final article of this three-part series.

If you are new to IBC I encourage you to continue to broaden your education about IBC using our podcast and our website, especially with regards to policy loans. Robert and I have written quite a number of articles specifically about this subject ever since 2010 when we first launched the *Lara-Murphy Report (LMR)* and they are all available in the *LMR* archives for subscribers. But whether you are an *LMR* subscriber or not, I would at least like to recommend that you read “The Policy Loan Debate Explained,” which I wrote in the September 2014 issue of the *LMR* as a starter article. You can find a free copy of it here: <https://lara-murphy.com/lmr-greatest-hits/> Many other free articles on policy loans are also located on this same page and I recommend that you read as many of them as you can before you begin to use IBC in your own economic affairs.

The Ideal Strategy for Business Owners

Before launching into the most critical rules on policy loans, let’s briefly review the main reason that I wrote this series in the first place and why I believe this is the ideal tax strategy for a business owner primarily.

It all started with an attempt to answer a typical objection that I would often hear being expressed by business people once it dawned on them that practicing IBC would in fact allow them to eventually wean themselves from their dependency on commercial banks and in particular from the clutches of a commercial bank’s overt collateral requirements. As a prerequisite the collateral that commercial banks demand include the assets of the business and the personal guarantee of the business owner. This is why once the workings of IBC and policy loans are fully understood, the business owner has no difficulty choosing the superior stress-free option.

Still, the limiting factor for many business owners to be able to obtain an IBC-type policy was that all of their excess cash flow was tied up elsewhere. They had enough business savvy to know that in order to obtain an IBC banking policy large enough to accommodate the required needs of their business a significant amount of ready capital would be required to fund such a policy. So I simply suggested that the business owner could take cash flows that were already earmarked for paying taxes to the IRS and re-route them through a correctly designed IBC policy that would have the capacity to adjust to the business owner's particular situation.

By using this particular strategy the business owner would in effect be making use of the same money that was already set aside to pay the government and wind up accomplishing two things with it instead of just one. All he had to do was to first direct these monies to set up his IBC policy then turn around and pay them to the IRS using a policy loan. He would do this again the following year and continue this same procedure for several years until he had built up a sizable IBC infrastructure with a huge death benefit. My illustrations (in Part 2 of this article) showed ten consecutive years of policy loans as an example, although one of them was a real life case study. Building the large death benefit was the initial goal of this strategy and then later, at some time in the future, the business owner would repay these loans with "*windfalls*" or the sale of business assets.

I want to stress again that there is nothing magic going on here; we are not conjuring up wealth out of thin air. This is why I included actual illustrations provided by a life insurance company to show exactly what I meant. Furthermore, when I talk about the IBC "tax strategy" *I am not talking about reducing your tax liability*. You are still paying your normal tax bill to the IRS. I am simply showing the business owner how to use the same cashflow to build up an IBC infrastructure in addition to satisfying the tax man.

I focus on the business person because he has large cashflows. This is not to say that an employee on a fixed income does not ever have a windfall or that such an individual never sells an asset and then needs

a place to store the proceeds from that sale. I simply mean that this idea resonates most strongly with business owners because they can *create* windfalls by generating additional business profits and, as a rule, they strive to build up business assets in order to sell them later for a profit.

What really makes this IBC tax strategy work as efficiently as it does boils down to the way the life insurance contract is initially designed, combined with the following three important attributes of a dividend-paying Whole Life insurance policy. We have already discussed all three of these in detail in the previous articles, but it is well worth listing them once more for emphasis.

1. Access and Control Over Your Money: If you have cash value in your policy you have a contractual right to *policy loans*.

2. Flexibility of Repayment Terms: Although an outstanding policy loan rolls over at interest, you can pay it back on your own schedule, or even not at all, if you wish.

3. Uninterrupted Compounding Of Your Money: Whatever amount you borrow—that same amount continues to earn money in the form of interest, dividends, and equity in your policy as long as you live and as long as your policy remains in force.

The Important Discretionary Guidelines of Policy Loans

Notice that I refer to the policy loan rules as "*discretionary guidelines*." This is because in the final analysis these rules are up to you, the policy owner, to exercise or not. For example, with regards to point number 2 above—in reference to the flexibility of the repayment terms of policy loans, I clearly state that you can pay back the policy loan "*on your own schedule, or even not at all, if you wish*."

That statement is not a misprint. It is absolutely true of policy loans. But in the context of my discussion of an IBC tax strategy, it would be contrary to the true practice of IBC if you did not pay back your loans at all. This important point has been repeatedly stressed throughout this series and I am restating here again.

In other words, it is absolutely in the best interest of the policy owner who is practicing IBC to repay his policy loans.

The reason for this insistence is that we must not forget our primary purpose for practicing IBC in the first place. IBC is first and foremost a cash flow and financing system that allows you to borrow from the insurance company using your cash values in your policy as the collateral. Repayment of policy loans is what releases the collateral and replenishes your line of credit with the insurance company so that you can re-use the cash values again for either emergency expenditures, investments and/or for purchasing big-ticket business assets.

The true IBC practitioner realizes and accepts that this *process* of using the Whole Life policy as its *platform* is the “*alternate*” cash flow and financing mechanism he has been looking for to replace the commercial banking system, which he was previously using with all the duress that came with it. This alternate system now becomes his main (so called) *privatized* bank and the primary place where the bulk of his “dollars” should ultimately reside. So naturally there is a very strong economic incentive to pay off policy loans with windfalls and proceeds from the sale of business assets.

In effect, the entire IBC process involves “*overfunding*” the policy without “*MEC-ing*” it in the initial capitalization phase and then “*re-funding*” it again when policy loans are paid off, thereby replenishing the business owner’s capital base. Practicing both phases of this process is representative of sound money management and the best use of *time* as an ally.

Years later, once the business owner is ready to retire with his substantial cash values and the huge death benefit in his policy, he can now re-direct the dividends, which by now will also be huge, into a tax-free income stream to sustain him in old age. Then at his death it all culminates with the beneficiary, or beneficiaries, or his estate receiving that large death benefit income tax free. All this to say that by practicing IBC correctly and responsibly there will

never be the worry of a 1099 surprise or the worry of the IBC policy ever being underwater.

Avoid Surrendering The Policy...Until Death

There is one complication. This error can potentially trigger a taxable event especially if you have had the policy for a number of years, have surpassed the cost basis of the policy (the premiums paid in) and have been taking out tax free dividends and withdrawals and still have sizable unpaid loans too close to the cash values on the books. I do, however, want to underscore the word *potential* because the way to keep that potential taxable event from ever occurring is to never *surrender* the policy. Quite frankly, there is absolutely no need to do such a thing unless the entire U.S. economic system derails. Short of this type of catastrophe there is no need to surrender it when practicing this strategy. The surrender is what makes the potentiality of the tax event more certain.

Specifically, what can happen is this: If you surrender a life insurance policy, then at that point the IRS will look at its history. If, during the life of the policy, you have “taken more out of it” (in the sense of dividends, withdrawals and policy loans) than you “put into it” (in the form of premium payments and loan repayments), then the IRS is going to treat the *net* wealth you extracted from the policy as taxable income.

Because of this possibility, you want to make sure you handle your IBC policy such that you never find yourself in a position where you want to surrender it. The policy must be allowed to continue to chug along utilizing its uninterrupted compounding mechanism on its credited interest rate and its dividend payments to build up equity in the policy as described in point number 3 above. In spite of sizable policy loans outstanding, the policy’s earnings will stay ahead of them. Recall that due to the design and structure of the policy, you, the policy owner can never be obligated for a loan that’s greater than the available cash value. The policy will stay ahead of your loans as long ***as you live and as long as your policy stays in force.***

To further reinforce the value of practicing IBC in general and this strategy in particular is the IRS’s

ruling under Title 26 Section 7702 (a) thru (g)¹ and again in Title 26 Section 101(a)², which together state that any and all cash value growth in the policy is not taxable in any year and any distributions taken out of the policy including its gains are not taxable in any year, plus if the policy is held until death the taxation of any gains are avoided altogether. On top of that, the beneficiary of the death benefit receives it income tax free.

To repeat, the type of error I'm warning about is made when a policy owner mistakenly surrenders a policy to pay for an outstanding policy loan. That transaction can potentially create a taxable event, not because the loan is taxable, but because the surrender of the policy itself *may* be taxable. This is because the policy surrender while you are still alive causes the entire principal and all the gains to become revealed as though they were withdrawn all at once at the time of the surrender, thus triggering the tax.

This action by the policy owner signals the insurance company to pay itself out from the remaining cash values (not the death benefit) leaving the policy owner to pay the tax on all the gains with the remaining money, which may or not be there if you stripped all of your capital base by never paying off any policy loans. Of course, if you surrender the policy at a time when you know you have not surpassed the cost basis there will be no tax due. Additionally, if you surrender the policy with a hefty capital base enough to pay off the policy loans and still have enough cash value left over to pay the tax then it's pretty much a wash.

The other common mistake is made when a policy owner believes he can no longer make the premium payments on the policy to keep it in force, therefore allowing the policy to lapse. If you are having problems making the premium payments all you have to do is *restructure* the policy so that some of the policy's working parts, such as PUAs, death benefit, or dividends are partially surrendered or directed in such a way to make sure the premium payments are continuously made and this will keep the policy in force until your death, which is the main goal of this strategy.

Everyone who practices IBC must know about the potential tax problems caused by policy surrenders and the available *premium payment restructures* available in all dividend paying Whole Life insurance policies obtained from a mutual or a mutual holding company. This knowledge is a must. But as I've stressed, so long as you are playing "honest banker with yourself" and paying down your outstanding policy loans according to a schedule, then you will never get into dangerous waters.

Annual Policy Reviews and In-Force Illustrations

There is one final piece of advice. Practicing IBC and especially the IBC Tax Strategy that we have been discussing here requires monitoring of your policy or policies. Remember, this is a cash flow and financing system you are managing. Consequently, you should do a review of your policy with the help of your *Authorized IBC Practitioner* each year. Your insurance company will provide you an annual snapshot of your policy each year at the end of your policy's anniversary date. This is an excellent time to do your policy review. Ask questions and become familiar with all of the terminology in the policy's annual statement and especially how to read the policy's progress.

Since you, the policy owner, are ultimately in charge of taking out and paying off policy loans with windfalls and proceeds from the sale of business assets, learn how to request an "*in-force illustration*" from the insurance company. These in-force illustrations can project for you several years into the future to see how the policy is expected to perform from the day of your request.

These projections take into account current crediting interest rates, current loan rates, and premium payments to help guide the cost and consequences of future loans and pay offs. I know that we are currently in a prolonged low interest rate environment, but the reality is that we live in a volatile interest rate world where the values of assets can change overnight. These projections will help you see down the corridor of the future to help guide you in making important business decisions to steer away from potential future

problems.

For example, these in-force projections may show you that say five years down the road you may need to make adjustments, like pay the interest each year for a few years to slow up the compounding interest on loans if you don't have enough to reduce the principal at the present time. Or, you may need to restructure the policy much earlier than you first thought. The point is that the entire IBC process is flexible and you have options when you are monitoring your IBC policy sensibly.

Once you know and understand these few important discretionary guidelines to the successful practice of IBC, including policy loans, you can do the IBC type tax strategy with *any* recurring expense you may have, not just your taxes. If you will always practice IBC correctly and responsibly, as these three articles have made clear, you can do this strategy with complete confidence.

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Hamilton Liar

By Brion McClanahan

Republicans unveiled their tax plan in September to mixed reviews. That was to be expected. It hasn't gotten any better in recent weeks.

Americans generally want lower taxes. They also want the Republican Party to do something they promised while begging for votes.

Let's not ask for too much.

One called on the Rush Limbaugh Show in late September suggested that people read Federalist No. 21 to understand why taxes should be lowered. Hamilton, this caller said, showed us the light.

Limbaugh joked that he rapped it. Either way, here is

Hamilton entering another modern debate. There is now an app for that, unfortunately.

Hamilton proposed in Federalist No. 21 that "indirect" taxes, meaning tariffs, should be used more extensively than direct because direct taxes created substantial problems for an economy. The modern income tax is a direct tax.

Except we shouldn't listen to Hamilton. He didn't mean it. Less than three years after writing Federalist No. 21, Hamilton turned around and argued for... drumroll... a lengthy list of direct taxes, ostensibly because the country "needed it," but Hamilton suggested that such taxes would only be used in a time of war. The United States wasn't at war in 1790.

That was Hamilton's "m.o." His duplicity knew no bounds.

John Taylor of Caroline called him a tyrant as did a number of forward thinking Americans at the time. They could see Hamilton's constitutional machinations wrecking the fragile fabric of Union. His top down approach to every problem and his penchant for advancing a stronger central authority at the expense of the states were the exact opposite positions he favored while scribbling the Federalist essays, and many could see that Hamilton's desire to recreate the corruption of the British constitution would eventually destroy the Union.

It wasn't "state's rights" that ripped apart the Union. It was Hamiltonian nationalism, the belief that the general government can do anything it wants as long as it is "necessary and proper" for the "general welfare" of the American people, the Constitution be damned. That is the real story of America, but every school child is fed the opposite narrative from the time they enter kindergarten as a little mind of mush. Uncle Sam knows how to indoctrinate kids, and we want more Uncle Sam in education. Doesn't make sense.

With Constitution Day a little over a month ago, Americans should reconsider their Hamilton love. They should first avoid downloading the app. After all, Hamilton's Constitution, the Constitution he favored

in 1787 when he called for unlimited central power or the Constitution he advanced as Secretary of Treasury with expansive "implied powers" was the opposite of the Constitution he sold to the states as primary author of the Federalist essays and in speeches to the New York ratifying convention. And he clearly knew it.

Hamilton, for example, knew his "assumption scheme" where the general government would assume the debts of the several states was expressly rejected by the Philadelphia Convention, but he pushed for it anyway. Same with his favorite project, the Bank of the United States. That idea was shot down so thoroughly that no one in Philadelphia in 1787 thought it would be resurrected once the Constitution was ratified. They were wrong.

Hamilton argued in Federalist No. 69 that the American presidency would not resemble a king only to push for executive powers while Secretary of Treasury that George III would have recognized.

Hamilton was a brilliant, narcissistic, psychopath, a man with a real "American story" of "rags to riches," but a man who did more to undermine the original understanding of the Constitution—an understanding he helped craft—than anyone in American history.

Conservative Americans should stop rapping about Hamilton and start railing against him. If they truly believe in a general government of limited powers, of real "grass roots" politics, then Hamilton is not their guy.

There is a reason a leftist political activist like Lin Manuel-Miranda wrote a play about Hamilton. That should give any conservative pause. Miranda didn't hijack Hamilton's legacy. He merely lifted the veil.

But by letting Miranda tell the story, "Who Lives, Who Dies, Who Tells Your Story," Hamilton gains a reputation he doesn't deserve. Hamilton's musical should rather be "Hamilton: The Liar."

Brion McClanahan [send him mail] holds a Ph.D in American History from the University of South Carolina. His newest book is *How Alexander Hamilton Screwed Up America*.

So This Is What Happens With Government Disaster Relief?

by Jeffrey Tucker

The idea of having government assist after a natural disaster sounds great. It makes us feel good. Houston floods? Send millions. New Orleans floods? Send hundreds of millions. Puerto Rico? The place is a mess and needs billions and billions. It all seems right.

Until you look at the details. Someone gets the money. Whether they are the same institutions who actually do the reconstruction is another matter. And what kind of relief they provide is still another question. Other people's money usually works this way. Look closely enough and you find corruption at every level.

I recall living in a town hit by a hurricane many years ago. The town mayor instructed people not to clean up yet because FEMA was coming to town. To get the maximum cash infusion, the inspectors needed to see terrible things. When the money finally arrived, it went to the largest real estate developers, who promptly used it to clear cut land for new housing developments. That's some nice capital if you can get it.

And now we have the remarkable case of Whitefish Energy. It's a good example of how a website can make anything seem awesome. You would never know by looking at the impressive digital space that this is a father/son business. That's right: just two employees.

It does seem highly strange that this desktop operation in Montana would be awarded a \$300 million contract to rebuild the electrical grid in Puerto Rico. That sounds outrageous. But guess what? This is a day and a half of disaster relief spending.

Meanwhile, fully six weeks following Hurricane Maria, most of the island is in the dark. Already, \$20 million of the contract has been spent. The controversy surrounding the award has led the governor of the island to cancel the contract. Now the FBI is looking into precisely what happened here.

Here is an interesting clue buried in the New York

Times's reporting:

The company's chief executive, Andy Techmanski, came from the same small town in Montana as Interior Secretary Ryan Zinke. In an interview shortly after securing the contract, Mr. Techmanski told a local news station that he had been in touch with Mr. Zinke for "more resources." Mr. Zinke's son worked for Whitefish last summer.

To be sure, this could be a coincidence. Surely. And yet, to believe that does require that you suspend all normal standards of incredulity. The NYT again:

"Absolutely outrageous," said Eduardo Bhatia, a Puerto Rican opposition senator who wrote an energy law in 2014. "A two-employee company from Whitefish, Mont., gets a \$300 million contract out of nowhere? Based on what?"

Still, the company protested the end of the contract.

"The decision will only delay what the people of Puerto Rico want and deserve — to have the power restored quickly in the same manner their fellow citizens on the mainland experience after a natural disaster. We will certainly finish any work that Prepa wants us to complete, and stand by our commitments, knowing that we made an important contribution to the restoration of the power grid since our arrival on the island on Oct. 2."

That's some spin right there. Meanwhile, Zinke claims that he had "absolutely nothing to do" with selecting the company that got the contract, even though the company is in his hometown and his own son worked there.

And yet there is more. The Daily Beast discovered that the company that is financing Whitefish's expansions, HBC Investments, was founded by its current general partner Joe Colonna. He and his wife were larger donors to Trump campaign, in every form permissible by law and at maximum amounts. In addition, Colonna serves on the board and directs investment for this Teacher Retirement System of Texas.

Smell a rat or maybe a whole pack?

Here is what strikes me. A contract has to be this big

and this egregious and this absurdly ridiculous to attract the interest of the press and even the FBI. What else goes on with disaster relief? Why does it have to be this bad finally to raise some eyebrows?

FEMA has long been used as a pipeline to cronies gain access to funds for rebuilding. It's not really about helping people who are hurt by storms. It is about getting disaster aid in the right hands as a reward for political loyalties and donations.

The great truth about government is that every penny it spends must come from somewhere and must land somewhere else. Depending on how you define "scandal," it is absolutely ubiquitous from the beginning to the end of the budget. There is no possibility of eliminating corruption in government. That's a pipe dream. The entire apparatus itself is rooted in corruption, defined as self-interested people using the system to enrich themselves at others' expense.

Maybe someone will get to the bottom of this particular caper. If so, that accounts for \$300 million, out of \$3.27 trillion. We've got a long way to go to sort out precisely where our money taken by force is going.

Jeffrey Tucker is Director of Content for the Foundation for Economic Education. He is founder of Liberty.me, Distinguished Honorary Member of Mises Brazil, economics adviser to FreeSociety.com, research fellow at the Acton Institute, policy adviser of the Heartland Institute, founder of the CryptoCurrency Conference, member of the editorial board of the Molinari Review, an advisor to the blockchain application builder Factom, and author of five books, most recently Right-Wing Collectivism: The Other Threat to Liberty, with a preface by Deirdre McCloskey (FEE 2017). He has written 150 introductions to books and many thousands of articles appearing in the scholarly and popular press.

This article was originally published on FEE.org.

The Bolshevik Great Experiment: 100 Years Later

by T. Hunt Tooley

Since the beginning of the centennial of World War I, I have been writing a series of essays about the war as the memory of events passes us by--a hundred years later. But as we approach the centennial of the Bolshevik Revolution, I find it nearly impossible to delimit my thoughts on this profound event in the history of the human race as if it were only a passage of the war, like the Somme, or American intervention, or the internment of enemy aliens.

There are so many narrations of the "event" itself. There are so many answers to the question "why." There are so many clashing depictions of tectonic shifts in Russia and the world at that time, of Lenin, Trotsky, Dzerzhinsky and the rest as actors, heroes, villains, and (to some modern day sycophants) secular saints.

The inhuman cruelty, the killing capacity of this Marxist-Leninist movement which styled itself occasionally as the champion of the "people" (though much more often and much more truthfully as the vanguard of the proletariat on the march toward a revolutionary conflagration that would produce the new man) truly tests the bounds of human comprehension. Even if we take into account a group of recent historians who minimize standard historical estimates of total non-combat, democidal totals of deaths (based in part on recently found archival materials, but in part on soft hearts still loyal to the Great Experiment), the median calculation of Communist mortality by historians and demographers credits the Soviet Union of Lenin and Stalin with somewhere between eighteen and sixty-two million deaths beyond technically military losses. If we add up the democidal killings of spin-off Communist regimes across the globe, the totals are astronomical, with the estimates by historians, sociologists, demographers, and other serious analysts hovering around a hundred million human beings.

These deaths were, in the view of Communist elites from Lenin to Stalin to Mao to Pol Pot, necessary. The

grist of History's mill, so to speak.

Still, many persist in wearing Che Guevara t-shirts and longing for the Great Experiment. In 2011, Rasmussen pollsters found that eleven percent of Americans thought that a Communist regime would be better than the current "system" of politics and economics in the United States.

Such attitudes come in part from the lack of much serious study of history at any level in the schools in the United States and in other parts of the world. My own history students read Solzhenitsyn, or Yevgenia Ginzburg, or *The Black Book of Communism* and express surprise at the enormity of Communist mass murders and persecution they have hardly been aware of previously. But this phenomenon is by no means recent. In my own education, which took place, from first grade to Ph.D., during the Cold War, only one or two teachers dealt with Soviet and Communist mass murder in any way, and that was not until I was well into university historical studies. And of course Hollywood, that great shaper of popular historical awareness, has assiduously avoided all of this murder and misery. No doubt because it offers so little in the way of human drama.

In any case, the answer is not the schools, whose bureaucracy and whose ideological and even pedagogical limitations will never add to the curriculum a special chapter studying the bloody history of the Great Experiment. Rather, the solution will come through individual reading and learning among a growing subset of educated, and especially self-educated, persons committed to the exploration of the total state and its origins--outside and typically after the completion of formal schooling. The materials of this kind of guerrilla education takes the form these days of books, online seminars, special courses on economics and society, and myriad other forms of information that somehow escape from and flow around the historical narratives that avoid mentioning these profound crimes which took place in the name of the Marxist historical dialectic.

So as we come to this particular grim centennial, we do well to pay even more attention to the influence of

the Bolshevik Revolution through the entirety of the last century. By any measure, World War I shaped the century after it by institutionalizing and to some extent normalizing mass violence, by unleashing the state in its aggressiveness, acquisitiveness, and power. But the "contributions" of the Bolshevik Revolution hold pride of place. As yet, the legacy of the Bolshevik takeover of the Russian Empire beginning in October/November 1917 represents the single historical fact from the Great War — of dreadfully many possible choices — that must be viewed as having visited the most misery and death on the human race in its time and over the century to come.

Hunt Tooley is chairman of the department of history at Austin College.

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Parents Can Trust Kids to Teach Themselves

by Dan Sanchez

Good news: Great parenting is much easier and more fun than most people think, even if you homeschool: in fact, especially if you homeschool.

You don't need to be an expert, whether in education or any given subject matter, for your child to learn. You don't need to be a taskmaster for your child to become self-disciplined and successful. And you don't need to regularly rebuke your children over their behavior for them to learn good manners and grow up to become decent, moral people. You can relieve yourself (and your child) of these onerous burdens, because **kids teach themselves**.

Free to Learn

This is the fundamental insight underlying Self-Directed Education, a burgeoning movement and philosophy that has grown out of ideas associated with homeschooling, unschooling, peaceful parenting, Montessori education, and other child-centered approaches.

As biopsychologist Peter Gray wrote in his book *Free to Learn*:

Children come into the world burning to learn and genetically programmed with extraordinary capacities for learning. They are little learning machines.

We are all born autodidacts—self-educators—blessed with an instinctive drive to acquire, exercise, test, and improve new abilities that will help us thrive in life.

As children grow more aware of the world around them, they yearn to engage with it, and to do so with ever greater independence. They see how adults and older kids use their minds and bodies to do wondrous things—moving, communicating, performing, creating, etc—and this inspires them into emulation.

This is not to say there is no fundamental difference between children and adults. Children are not yet fully independent. They cannot provide for themselves, and they mustn't be allowed to toddle into deadly danger. As such, they need adults to give them a considerable degree of protection and provision. They also need affection, which serves as emotional assurance of such life-securing support.

The Role of Parents

But, what children do not need (and what is almost always imposed on them) is continuous external direction and correction in their daily doings. Children can be trusted to self-direct, and to self-direct toward ever greater self-actualization.

As John Holt, who coined the term “unschooling,” wrote in his book *How Children Learn*:

All I am saying in this book can be summed up in two words — Trust Children. Nothing could be more simple — or more difficult. Difficult, because to trust children we must trust ourselves — and most of us were taught as children that we could not be trusted. And so we go on treating children as we ourselves were treated, calling this ‘reality,’ or saying bitterly, ‘If I could put up with it, they can too.’ What we have to do is break this long downward cycle of fear and distrust, and trust children as we ourselves were not trusted. To do this will take a long leap of faith — but great rewards await any of us who will take that leap.

This is not to say that parents have no role in the education of their children beyond basic life-support. Great parenting means facilitating self-directed education by providing children with access to resource-rich environments, and then stepping back and allowing them maximum freedom to engage with those resources however they please: in other words, freedom to play.

Some of these resources are material: toys, stuff for building, natural materials, etc. Children are naturally drawn to manipulate, explore, and experiment with stuff: especially new things.

And children especially need access to what Dr. Gray refers to as “the tools of their culture.” For children in hunter-gatherer societies, this meant, “knives, digging sticks, bows and arrows, snares, musical instruments, dugout canoes, and the like.” For children in the modern world, this means cooking utensils, cleaning instruments, handiwork tools, creative materials, books, computers, and other hi-tech devices: yes, even the much-maligned smartphone and tablet of “screentime” infamy.

Just as hunter-gatherer children learned to play with primitive tools by observing their elders, modern children need to see adults and older children using the tools of their work and pastimes. So access to “human resources” is just as important as material resources. Parents must first and foremost provide access to themselves. And from there, children should be allowed to branch out to other family members and non-related friends of all ages. Any member of a child's community can serve the child as a model to emulate and as a playmate to interact with.

Play Is Education

Such play is how children self-educate. They observe others doing things they themselves cannot yet do. They try their hand by roughly mimicking the behavior. They request help when they need and are ready for it. And they obsessively repeat new behaviors over and over again. During these reps, they compare their own actions with the actions of their models, notice discrepancies, and refine accordingly. And they continually challenge themselves to approach the

performance levels of their elders.

This is how children learn to walk and to talk. And if our teacherly ministrations don't interfere, it is also how they can smoothly teach themselves to read, write, draw, sing, dance, sport, build, or undertake anything else that interests them. And they can be trusted to become interested in all the core skills necessary to thrive in the culture they're surrounded by.

Voluntarily following self-directed pursuits is how children learn such virtues as self-discipline, industry, and grit. And social play is how children learn how best to treat other people: in other words, how they learn morals and manners.

How Adults Get in the Way

The flipside of the insight that kids teach themselves is the unsettling realization that adults, in trying to be good teachers, too often obstruct and sidetrack the efforts of children to self-educate: especially once children are enrolled in school.

This message should be especially easy for lovers of liberty to understand. Human beings, both adults and children, thrive under freedom. And authoritarian interventions, no matter how well-intentioned, generally muck things up: whether the intervener is an overbearing teacher or a busybody bureaucrat.

As Gray wrote:

Nature does not turn off this enormous desire and capacity to learn when children turn five or six. We turn it off with our coercive system of schooling.

Free play is the natural work and study of children. And, even for adults, the highest, most productive and creative forms of work and study are indistinguishable from play. Displacing the free play of children with adult-imposed, coerced work and study only serves to cripple the child's self-educating spirit and to stunt the child's development.

The main lessons imparted by coercive education are (1) that work and study are fundamentally boring and stressful endeavors to pursue grudgingly for someone else's sake, and not your own, and (2) that submissiveness and blind compliance will be

rewarded in life, and so are prime virtues, while initiative and self-driven enterprise will be punished, and so are dangerous vices.

As Holt wrote:

In short, children have a style of learning that fits their condition, and which they use naturally and well until we train them out of it. We like to say that we send children to school to teach them to think. What we do, all too often, is to teach them to think badly, to give up a natural and powerful way of thinking in favor of a method that does not work well for them and that we rarely use ourselves.

If you would like to explore these ideas further, I highly recommend the following books and resources. Let the self-education begin!

Books

FEE's Essential Guide to Self-Directed Education

Free to Learn by Peter Gray

How Children Learn by John Holt

How Children Fail by John Holt

Dumbing Us Down by John Taylor Gatto

Weapons of Mass Instruction by John Taylor Gatto

Organizations and Websites

The Alliance for Self-Directed Education (self-directed.org)

Freedom to Learn (Peter Gray's blog at Psychology Today)

Whole Family Learning

Praxis: a self-directed education and apprenticeship program for young professionals

The Libertarian Homeschooler on Facebook

Dan Sanchez is Managing Editor of FEE.org. His writings are collected at DanSanchez.me.

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State Coercion Is Intoxicating, Seductive, and Wrong

by Omer Grigg

A while ago I met a young religious woman who founded a very successful nonprofit organization all by herself. The organization raises private funds for, and organizes trips to, various important and holy Jewish sites for high school classes. She believed that it is important for young people to know more about their religious ancestral heritage, and she did something about it. But she was not satisfied. She told me that her dream is to get into politics and eventually get appointed as education minister.

"You see, Omer, the fundraising and logistics are not so hard. What drives me crazy are the high school principals. It is so difficult to get them to cooperate! I do all the hard work for them; they don't even have to pay for the trips! All they need to do is make time in the school schedule and organize the kids, and still, they give me a hard time. When I'm education minister, I'll make the trips mandatory for all Israeli schools, and the state will pay for them."

"But eventually someone will replace you as minister and might overturn your policy. Worse, he or she might replace it with another policy you are opposed to! And what about the parents? If you don't want some minister to force your kids to visit Muslim sites, for example, why force other parents to send their kids to Jewish sites?"

"I'm sorry, but this issue is just too important to leave in the hands of the parents."

I just could not get to her. She was so convinced of the importance of these trips that she found using coercion as a shortcut, instead of the daily drudgery of the effort of persuasion, to be justifiable.

The Allure of Coercion

Why is the use of government coercion so appealing to well-intentioned people?

I think one reason is that we lost our trust in civil society and instead placed our hopes in politics.

A year ago, Israel's Minister of Justice, Ayelet Shaked, spoke in front of the Israel Bar Association. In what was later called "Shaked's liberty speech," she made several poignant statements:

Every time Parliament passes a new law aimed at serving a worthwhile purpose...we actually hold a vote of no confidence...in our ability as individuals and communities to manage ourselves...in the people's wisdom to create and maintain mechanisms more successful than those artificially shaped by experts.

Shaked also lamented the staggering number of bills submitted to Parliament:

In the last fifteen months...time after time, 1,550 times, we were asked, as the government, to deprive the citizens of just a little more of their liberties...to engineer society in such a way that will only do good and never bad, so they promised...

Israeli parliament holds the dubious record as the parliament that proposes the highest number of bills in the world. Between 1999 and 2016, 23,819 bills were submitted. Italy holds second place with 17,800 bills, Austria is third with 6,000; most European parliaments average at several hundred bills. Even worse, Israeli law does not require parliament members to accompany their bills with detailed analyses on their budgetary or legal implications.

Big Government Squeezes Out Private Decision-Making

Shaked's "every new law is a vote of no confidence in the public" argument is similar to an argument I try to advance as often as I can – the political sphere and the civilian sphere oppose each other, and each one expands at the expense of the other.

This is the real "big government" – the ever-increasing political meddling in civil life. The political sphere is a parasite, feeding on and depleting civil society.

But what is so wrong with conferring politics jurisdiction over aspects of civilian life?

One major reason is the difference between political and civilian decision-making.

For example, choosing ice cream flavor falls, presently, within the civilian sphere. The result? Chocolate lovers can get chocolate ice cream, and vanilla lovers can get vanilla. The market mechanism found a way to satisfy both camps. But what if we delegated this little piece of our life to the political sphere? We would have elections, and all of us would eat either chocolate or vanilla ice cream for the next four years, depending on the majority outcome. And that is assuming the democratic process is "pure," which it is not. Political decision-making is inherently adversarial, and political solutions are usually one-size-fits-all. Therefore, politics tend to create unnecessary friction and strife while civilian decision-making minimizes them.

Liberty and responsibility are two sides of the same coin – they are inseparable. Some people might find this fact discouraging, but it is a fact nonetheless. Using government coercion as a shortcut to achieving goals is a dangerous temptation, frequently coming back to bite those who seek to use it for worthy purposes.

Omer Grigg is a Deputy Director at the Israel Center for Social and Economic Progress.

This article was originally published on FEE.org.

Education Is the State's Greatest Tool for Propaganda

by Brittany Hunter

In chapter 10 of *The Road to Serfdom*, Hayek describes how some of the worst people always end up rising to the top of the political heap. Continuing to touch on this theme in the eleventh chapter, Hayek digs even deeper and discusses the control of information and the very basis of truth in a planned society.

In a society where totalitarianism reigns, truth is found not in objective principles, but in a government's desired ends. Once these ends have been established, all other forms of information are tailored to reinforce that "truth." Reason is henceforth thrown out the window and the state's version of truth is beyond

contestation. As George Orwell wrote:

“Nazi theory indeed specifically denies that such a thing as “the truth” exists. ... The implied objective of this line of thought is a nightmare world in which the Leader, or some ruling clique, controls not only the future but the past. If the Leader says of such and such an event, “It never happened” – well, it never happened. If he says that two and two are five – well, two and two are five. This prospect frightens me much more than bombs.

But this on its own is not enough to sway entire nations. Instead of the people merely accepting these “truths” it is important that the state convince them that these truths are their own. When individuals begin to tie their interests to the state’s interests a terrifying unity occurs, the likes of which can be seen in almost every deceptive dictatorship throughout history.

As Hayek says:

“The most effective way of making everybody serve the single system of ends toward which the social plan is directed is to make everybody believe in those ends. To make a totalitarian system function efficiently, it is not enough that everybody should be forced to work for the same ends. It is essential that the people should come to regard them as their own ends.”

In order to do this, all propaganda is orchestrated to reinforce these ends in order to push individuals in the desired direction. Common themes and slogans are repeated over and over again in order beat these goals into the minds of the people. Anything contrary to the end goal must be squashed immediately. Anyone speaking out against them must too be destroyed in the name of national security. As Hayek says, “But the minority who will retain an inclination to criticize must also be silenced.”

And while most people associate propaganda with political posters and multimedia, there is no greater tool for propaganda than a nation’s education system.

State-Controlled Education

No matter how intelligent an individual may be, almost every person is susceptible to propaganda.

This is because, in many instances, most are unaware that they are falling prey to it. It seeps into our lives through all forms of entertainment but most especially through state-sponsored education.

In Nazi Germany, indoctrinating the youth was one of the easiest ways to ensure the fervent support of future generations. Adolf Hitler himself said, “He alone, who owns the youth, gains the future.” Children were forced into youth groups where their role in the Third Reich was reinforced continually. Germany even tailored toys, games, and books towards the desired ends of the Reich, ensuring that children would believe whatever they wanted them to believe.

Hayek writes:

“If all the sources of current information are effectively under one single control, it is no longer a question of merely persuading the people of this or that. The skillful propagandist then has power to mold their minds in any direction he chooses, and even the most intelligent and independent people cannot entirely escape that influence if they are long isolated from all other sources of information.”

And this was the aim of the Third Reich. If the German people were to not only accept but condone the acts of their government, there was no better way to do it then to teach them young, and lead them to believe that this has always been the case.

Touching on this, Hayek says:

“The most effective way of making people accept the validity of the values they are to serve is to persuade them that they are really the same as those which they, or at least the best among them, have always held, but which were not properly understood or recognized before.”

Or, to pull from Orwellian speak, the goal is to make these children believe that, “we have always been at war with Eastasia.”

But this deliberate molding of minds does not only occur in young students. In fact, once these children’s minds have been sufficiently indoctrinated, they are passed off to institutions of higher education where a belief in intellectual elitism is then instilled.

The Educated Elite

Trained to learn by rote methods rather than critical thinking, young adults, eager to assert their independence, were thrown into colleges and universities and told that they are now part of the intellectual elite. But from this comes the dangerous tendency to stop questioning the information that is presented to you. After all, your professors are highly regarded for their intellect. Why would they steer you in the wrong direction?

But when these professors begin to present state opinion as unquestioned truth, this is where the real problems arise.

The field of eugenics, for example, was once taught as if it were doctrinal truth. If racial superiority could be “scientifically” proven, or, rather, if the state could assert that this was fact, then questioning this doctrine became heresy.

As Hayek says:

“The need for such official doctrines as an instrument of directing and rallying the efforts of the people has been clearly foreseen by the various theoreticians of the totalitarian system. Plato’s “noble lies” and Sorel’s “myths” serve the same purpose as the racial doctrine of the Nazis or the theory of the corporative state of Mussolini. They are all necessarily based on particular views about facts which are then elaborated into scientific theories in order to justify a preconceived opinion.”

And, as has been seen throughout history, once a theory becomes part of the scientific narrative, it contributes to the direction of all societal ends. Hayek comments on this saying, “Thus a pseudoscientific theory becomes part of the official creed which to a greater or lesser degree directs everybody’s action.” While the eugenics example may seem rather extreme, it was very applicable to the time that Hayek was writing.

And while it is not easy in hindsight to understand how an entire population could fall for theories this callous, Hayek reminds us, “It is not difficult to deprive the great majority of independent thought.”

It may be easy to cast blame on the media and the entertainment industry for being natural propaganda machines, but history tells a different story. As we have now seen, state-controlled education is one of the worst and most effective propaganda tools that has ever existed.

Brittany Hunter is an associate editor at FEE. Brittany studied political science at Utah Valley University with a minor in Constitutional studies.

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Nelson's New Book Recommendations <https://infinitebanking.org/books/>

The Shift Age by David Houle

Flash Boys: A Wall Street Revolt by Michael Lewis

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

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

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- [Kim Butler - Mount Enterprise, Texas](#)
- [Russ Morgan - Vestavia Hills, Alabama](#)
- [Justin Craft - Birmingham, Alabama](#)
- [Kenneth Shapero - Coral Springs, Florida](#)
- [Steven Holtz - Los Angeles, California](#)
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- The State of the Economy
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- What does IBC Actually Look Like? A Case Study
- 3:00 pm Event Closes

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