



Privatized
**HOW BANKING
REALLY WORKS**

INTEGRATING AUSTRIAN ECONOMICS WITH THE INFINITE BANKING CONCEPT

**L. CARLOS LARA
ROBERT P. MURPHY, Ph.D.**

How *Privatized* Banking Really Works



The Sound Money Solution

- 1. Link outstanding Dollars to Gold:** *Creates property rights to unit weight of gold — All Banks solvent --100% Reserve Banking - --No more Inflation!*
- 2. Privatize Banking:** *Government money monopoly abolished*
- 3. Close Central Bank:** *Size and Expense of Gov 't decrease, taxes go way down, savings --- which fuel investment, go up!*

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“No one can find a safe way out for himself if society is sweeping towards destruction. Therefore everyone, in his own interests, must thrust himself vigorously into the intellectual battle. None can stand aside with unconcern; the interests of everyone hang on the results.”

— **Ludwig von Mises**

Chapter 1: Introduction

Why do we have to have money?

As the late economics Professor Clarence Carson explained, this is the type of question you are most likely to hear from a young child. However, when a child asks a question like this there is no real interest in knowing anything about the origin of money, or how it functions, or even about the fact that it is only a medium of exchange. Actually, the question stems entirely from the idea that the things the child wants cost money and he does not have enough of it. So in essence, the child’s real question is why he can’t have whatever he wants, when he wants it, without there being a cost attached to it. ⁽¹⁾

Now, when we step back and seriously think about it, this is a very good question and not only of children, but also of adults. It is a question that does not press on us too much, so long as things are going well economically and we all have sufficient incomes to pay for the things we want and need, but what happens when all of that changes, as in the type of changes we are all experiencing today? All of a sudden the alarm bells start to go off and everyone starts clamoring for answers about money.

It was actually the widespread clamor for these answers that was one of the principle motivations for the writing of this book. It all began with the alarming panic that spread throughout the world in the early fall of 2008. Here in the U.S. it was evident everywhere. Every day, for weeks on end, people were transfixed

(1) A good question put forth by Clarence B. Carson, Textbook: Basic Economics with Study Guide by Paul Cleveland, Ph.D., American Textbook Committee, 3105 Fourth Avenue, Phenix City, AL 36867-3309

to their TV sets as they listened to things they had difficulty comprehending, but knew all too well that they were experiencing a horrific financial meltdown unlike any other they had ever witnessed. The uncertainty the crisis created for everyone was impossible to hide and it was apparent in everyday conversations. Most notably was the fear it generated among schoolchildren from simply observing the state of anxiety in the faces of their parents. Americans, almost in unison, came to realize in a very personal way how fragile our entire economic system had become as they witnessed giant financial structures crumble. In fact, collapse of the entire U.S. financial system did not escape anyone's mind, even the minds of the most sophisticated economic experts.

Today we are left with the aftermath of the early phases of our present financial fiasco with many Americans now having lost their businesses, their jobs and entire life savings. The dramatic crash of the stock market and its erratic behavior since, coupled with the collapse of the real estate market, has left people everywhere asking: *where in the world do you put your money now?* No one, however, is, or can be, confident in his answer. Fear of double digit inflation, even hyperinflation, is on the minds of many. Gold and guns, growing statistically high in demand, are evidence of the uncertainty of our future. As our nation struggles with these problems, as it attempts to redefine, or create a new sense of direction, many have already lost all hope in the economic principles that once made this country great. The entire idea and hope of a free market economy is in crisis. A recent British Broadcasting Corporation poll across 27 different countries showed 89% of the 29,000 individuals questioned were disillusioned with capitalism. This is why those of us who still believe in the market and want no part of socialism are demanding reliable answers to help unravel all of the financial confusion!

Of course, this is not a new problem. As new as it may seem to our present generation in 2010, the struggle for the control over money is as old as mankind, but one sure place to begin the query about money within the United States is with this stark and paramount realization: **OUR MONEY IS NOT FULLY IN OUR CONTROL. The Central Bank of the United States—the Federal Reserve—has a complete monopoly on our money and this control is mandated by our federal government.** This domination of our entire monetary system has had severe economic and moral ramifications. The effects of this monopoly are the prime reason why the value of our money has fallen some 95% since the Federal Reserve's founding in 1913 and it is the direct cause of our current financial crisis.

We cannot ever hope to begin to think and see money with clarity until this realization is exposed and fully understood. To begin talking about the free market, money, savings, interest, credit, investments or banking without first having a complete grasp of this truth, the fact that we are under the grip of a centrally planned money mechanism, leads nowhere but to even greater confusion and disenchantment. However, in order for this truth to be fully grasped by the average U.S. citizen—to the degree that public opinion can effect a real change at the top echelons of government—will take nothing short of a miracle. How in the world do you take the printing press away from government once they have had full use of it all these many years? Until this is done, our United States will continue to head down a path of social, political and economic ruin.

Yes it is true. It is all so hugely overwhelming and hopeless...too big to fix. In fact, just how would one go about changing such a monstrous problem? When life is short and the moment of a possible victory so far in the future, why even bother? What is the point of even trying? Well first of all consider this, and consider it seriously. If change does not occur here in this country, a country where change is still possible, there is no place else left on this planet for an escape. The entire world operates by this same closed and controlled monetary system. Government mandated paper money and banking systems are everywhere! In the United States the Central Bank is the Federal Reserve, in England, the Central Bank is the Bank of England, in Italy it is the Bank of Italy and so on in every major foreign country. The power and growth of governments everywhere are fueled by these monopoly systems and their growth has cut into the quality of life for all individuals to staggering proportions. It is like a virus, parasitic in nature and which will eventually kill the host. If we do not make an effort to change it here in our country now it will never change and if we do not step forward to help change it, no one will.

Second, there is no rational reason to work myself and you, the reader, up into a revolutionary frenzy **unless we stop long enough to realize that we are losing something very precious... Our Freedom! To** bring this into perspective, consider that the abundance that we see and have, our high standard of living that most of us enjoy today, came into existence by a movement germinated from the idea of freedom. This movement exploded here in this country from 1776 until 1914—a very brief period of just over 135 years! Compared to the entire history of the

world this is amazing! We must, therefore, reverse this trend for it is possible that we may never have the opportunity to do so again.

"Take for example the major movement of the great classical liberal of the seventeenth, eighteenth, and nineteenth centuries. These, our ancestors, created a vast sprawling, and brilliant revolutionary movement, not only in the United States but throughout the Western world that lasted for centuries. This was the movement largely responsible for radically changing history, for almost destroying history as it was previously known to man. For before these centuries, the history of man, with one or two luminous exceptions, was a dark and gory record of tyranny and despotism, a record of various absolute States and monarchs crushing and exploiting their underlying populations, largely peasants, who, lived a brief and brutish life at bare subsistence, devoid of hope or promise. It was a revolution, a classical liberalism and radicalism that brought to the mass of people that hope and that promise, and which launched the great process of fulfillment. All that man has achieved today, in progress, in hope, in living standards, we can attribute to the revolutionary movement, to that "revolution". This great revolution was our father; it is now our task to complete its unfinished promise." So wrote Austrian Economist, Murray N. Rothbard in 1969.

Third, and most important, is that a movement for real change cannot possibly be effective if it starts from the top down (government down to the individual citizen). The genesis for change must start with the individual. It must have the individual as the principal criterion and spread out and up from there. This happens only when the individual's economic survival questions are answered to his full satisfaction and when he experiences immediate results for himself in the change endeavor he embarks upon. That is what this book is about. This is of crucial importance because when there are immediate benefits to the individual from his productive efforts, the individual takes notice and immediately seeks to duplicate it. When he sees that the benefits he gains also help society as a whole, he is encouraged and motivated to involve others, beginning with his own family members and then everyone else within his circle of contacts. This type of good news always spreads, slowly in the beginning, but then suddenly it turns into an evangelistic explosion. A movement that works in this manner can quickly take on a life of its own and spread until public opinion grows forcing the upper echelons of government to make vital and necessary changes. In the end, all economic policies are ultimately dependent on the views of the general public and their choice is final! It is the masses that determine the course of history, but its initial movement must start with the individual.

| For these three important reasons this book contains information to guide and empower the individual. It describes in detail three independent ideas that are

already at work spreading and gaining momentum throughout the grassroots of our country. The people and institutions involved with these ideas are wonderfully creative! Although distinct, these ideas are so uniquely intertwined that bringing them together as one powerful multi-dimensional element in this book was natural. These three ideas are Austrian Economics, the Sound Money Solution and Privatized Banking as best described by the Infinite Banking Concept, a book written by R. Nelson Nash. Once fully understood, each of these three ideas provides the basis for a formula with powerful turn-around dynamics that may be implemented by virtually any individual. The result is a private economic enterprise and self-perpetuating teaching tool that provides the individual the savings, banking and financing capabilities it needs to acquire all of his material needs, plus the power to literally reconstruct national monetary policy. It is these benefits that are the key to keeping the individual inspired as he spreads the message to others. As the message grows public opinion will change.

This powerful combination is the “*new*” idea presented in this book. This is, finally, a solution that answers the question of what one person can actually do that will make a difference in an economic environment that has gone terribly awry. When you begin first with the individual’s own private economic affairs, things change immediately for the better. It becomes the individual’s escape route to freedom. Furthermore, the Sound Money Solution supports this idea and Austrian Economics confirms it. More importantly, the individual can go into the economic enterprise immediately regardless of the bridled money system he may be in and what is going on all around him in the present social, political and economic environment. Although his hope rests in the ultimate triumph of the Sound Money Solution, which is changing the national monetary policy, the process he is engaging helps thrust forward the Austrian Economic message while advancing his own personal economic benefits in the here and now.

The idea is so rational that it should not at all be difficult to grasp. All that is required is an open mind, the understanding of a few undeniable economic principles, the use of sincere conviction, common sense, imagination, courage and, above all, discipline. Hopefully, in these first few beginning paragraphs, the reader’s appetite has been whetted enough to want to become more acquainted with the process. After understanding the idea clearly and serious thought given to it, it will naturally follow that the reader will want to embark upon the endeavor. In acting, by implementing the process in his own economic affairs, the reader confirms the immediate benefits of the idea and assures himself that it

does in fact really work! This, in turn, leads you into telling others about your new found independence and freedom thereby spreading the solution for our country everywhere.

Ignoring the Austrians Got Us in This Mess

In bringing together all of the thoughts contained in this book, it is important for the reader to know that I have received an enormous amount of help and to know exactly from where that help came. This is important because if the reader is to implement the idea presented here, he will ideally need to take very similar steps for a more in-depth and complete understanding of it. First of all, I have benefited immensely by being a student and passionate reader of the writings of the great classical natural law theorists found in Austrians Economists. These men, several who predated Adam Smith and who famously gave expression to *laissez-faire* in 1776, have come down to us through written history illuminating the difficult and the unseen on all things having to do with economics. In my own personal search for the truth in the economic and financial realm, I have found no parallel and only wish that I had heard about them earlier in my life. What a difference that would have made! In March of 2009, just six months after the economic crisis occurred, a rare and interesting article appeared in the financial publication, Barron's, entitled "Ignoring the Austrians Got Us in This Mess", by Randall W. Forsyth. The article pointed out that the Austrian prescriptions to solve the world's economic problems were first ignored by the New Deal of Franklin D. Roosevelt. That was seventy-five years ago! A grim reminder that the refusal to accept sound economic thinking has gone on in this country for quite some time. Instead, Keynesian Economics has now become entrenched in society everywhere. Every major university from Harvard on down is vested in this erroneous way of economic thinking. Across party lines, as substantiated by the Bush and now the Obama administration, with the \$700 billion dollar TARP in late 2008 and the \$787 billion dollar stimulus a few months later, the rejection of sound economics obviously continues. Therefore, without question, one of the principal and imperative goals of this book is for each reader to urgently become acquainted with Austrian economics. This does not imply that one must go back to school and become an economic scholar, but rather to take up reading it on a regular and consistent basis. Today, with the help of the internet it is easy! Only by seeing the world from the Austrian economic point of view is one able to sort out and distinguish good economics from bad economics.

Educating Yourself

Learning of the origins and basic tenets of Austrian economics is obviously the first step and it will not take long in one's search to eventually be led to *The Mises Institute* (www.mises.org) and *The Foundation for Economic Education* (www.fee.org), two of the leading and most recognized independent organizations committed to spreading free market ideas here in the United States.⁽³⁾ At these two websites you will find a world of illuminating economic articles, books, CDs, DVDs and scholarly journals that can be obtained from these fine private institutions—much of it for free. If the reader is hearing of the Austrian school of thought for the very first time, these private institutions are certainly the best place to start and continue acquiring the education needed. **However, for purposes of simplification, here is what may be considered the most important distinctions of this particular school of economic thinking.**

First of all it is important to realize that the Austrian School, although worldwide, is now most centrally located in the United States. It is not a physical school or place, but rather an economic way of thinking. Its predecessors first originated in Spain in the 15th Century, but some of the more influential Austrian scholars were from Vienna, Austria. As a general rule, the principle of scarcity and the concept of choice are at the center of Austrian Economics. Every action by every actor in an economy has its own set of values, preferences, needs, desires and time schedules for the goals intended to be reached. Why? Because economic value is subjective to the individual. This makes the Austrian economist see the complexity of an economy, and especially the market, uniquely different from all other schools of thought. What is remarkable to me, even now, is that, contrary to the fact that Wall Street, the media and most all of our political leaders in Washington were caught completely by surprise when the financial crisis hit us all in 2008, the Austrians had been predicting it all along, and they had been doing it for decades!

(3.) *There are also several other organizations and think tanks committed to free-market ideas here in the United States, though not necessarily in the tradition of the Austrian School.*

The Science of Human Action

There are, of course, many great foreign Austrian scholars such as Jean-Baptiste Say, Eugen von Bohm-Bawerk, Frederic Bastiat, Carl Menger, Wilhelm Ropke and Nobel Prize winning economist, F.A. Hayek, to name just a few. American born Austrian economists include Leonard Read, Henry Hazlitt and Murray N. Rothbard with the list growing and too numerous to mention all here. However, the most celebrated figure of the Austrian School and writing nearly 100 years ago is Ludwig von Mises. This great Austrian economic scholar accomplished a feat never before done in the history of economics. He took centuries of scattered economic thinking and brought it all together into one complete field of study, which he called *praxeology*, the science of human action. In essence, this science underscored that **man always acts with a purpose, never in the aggregate, but always as an individual**. For that reason, man cannot be placed into a formula, charted on a graph, or placed into a mathematical calculation for any type of centralized planning or forecasting as modern day economists insist on doing. What you learn from studying the works of Mises is that he was one of those individuals of impeccable character that comes along only rarely in history. One could say that he spent his entire life fighting an idea within civilization that was false. In fact, he believed this idea to be so delusional and destructive that he saw it as an evil that no one should give in to. In many observable ways, from his writings and lectures, it became clear that he was not so much thinking of himself, but rather looking ahead considering us in our day and time..., our kids and our grandkids. The legacy that he left behind, at a great personal cost to himself, was the encouragement for all of us to join into this intellectual battle and eventually defeat this evil idea. He believed it to be a moral responsibility that each of us, you and I, have to society.

Today, it is the great work of the Mises Institute, FEE, and other such private institutes, funded with no connections to powerful elites, that have become the centers for learning the economic principles that our children and grandchildren should be taught. They continue to fan the flame of liberty by publishing scholarly journals, publishing books, holding conferences, teaching students and holding seminars. Because of their efforts spanning more than 60 years here in America, hundreds of thousands have already joined in the intellectual battle and the changes are being felt everywhere. There is faith, hope and expectancy at these independent scholarly institutions that a dramatic change in the political and social landscape is right around the corner and can happen nearly overnight when

the ideological conditions are right. These institutions continue to provide the educational fuel to keep the fire burning. Every conscientious citizen should join and become a member of one. Along with this book, these are the places to begin one's educational journey of Austrian economics while at the same time staying involved in this battle over the minds of men.

The infinite Banking Concept

I acknowledge other good friends and fellow Austrians as important sources of help for the writing of this book. Dr. Paul A. Cleveland, Professor of Economics and Finance at Birmingham Southern College, without question, is, and has been, my economics teacher. When we first met years ago he was able to surmise quickly and accurately where I was in my journey into economics. He provided the necessary guidance for me to continue to move in the right direction and continues to do that to this day. There is also Canadian-born Dr. Richard J. Grant, Professor of Economics and Finance at Lipscomb University, who provided invaluable insights into current monetary policy relating specifically to the Federal Reserve and the banking system. With his wide experience of having taught and worked in twelve different countries his advice was instrumental in helping with missing pieces I had not yet quite figured out. And then, of course, there is my co-author of this book, Dr. Robert P. Murphy. Actually younger than some of my own children, Robert's energy and passion for his work makes him, in my opinion, a hopeful glimpse of the future of America. There are, of course, many others to whom I owe a great deal of gratitude for the thoughts provided in this book, but with many apologies will not be listed out.

It is also probably wise for me to point out that this book has borrowed ideas quite liberally from others. I doubt seriously if there is an original idea in it. This is a sort of blanket yet respectful acknowledgement to all the creators of these ideas which I have used without stopping to give official credit. At best, Robert and I have arranged what we think are brilliant ideas in a manner to support what we believe. If the reader is taken by this book and the line of thought it provides, then it has accomplished its purpose. Let me make clear, however, that there is no greater idea in this book that provides the catalytic force to empower the individual, to move him to take immediate action, than the idea provided by R. Nelson Nash and his Infinite Banking Concept (IBC). There will be more to say about Nelson and IBC later, however, I will say now that it was Nelson who first suggested I write this book. With each economic article I wrote and distributed

through the internet, his encouragement by way of a personal phone call would follow. I would have never conceived of the idea to write a book containing my thoughts had it not been for his urgings, at least not in the direction he kept pushing me towards. Nelson, a long time student of Austrian economics spanning 52 years, counseled me and spoke with me about the mentoring he had received earlier in his life from Leonard Read, founder of The Foundation for Economics Education. The ideas for his book, *The Infinite Banking Concept*, had come directly from Austrian Economics. It was these same conversations with Nelson Nash that I would in turn begin to share with Robert Murphy. Slowly, over a period of two years, Robert became convinced and convicted with what he was hearing. His first moment of real clarity came one day over lunch with Paul Cleveland. Robert had just finished reading Nelson's book and by the time lunch was over Robert understood the significance of what the book was explaining and soon thereafter implemented the process for himself.

The Sound Money Solution

The day Robert Murphy committed to co-author this book with me is a day I shall never forget simply because of the unusual and unexpected way in which it happened. However, it is precisely because of the way it happened that explains and proves the explosive vision the ideas in this book produce. To recount this special day and begin to put it into proper perspective, keep in mind that up until then Robert and I had been vigorously involved in numerous conversations about the human predicament in today's economic environment. Robert, as a scholar and expert in Austrian Economics, could explain why things were the way they were academically. He obviously could expound on these problems prolifically having written several books and study guides to Mises' "Human Action" and Murray Rothbard's "Man, Economy and State"; not to leave out the countless articles for various independent libertarian think tanks. However, thoroughly explaining and diagnosing the problem of our nation and our world was not the main issue. What everyone desperately wanted to know was how to fix it! Additionally, we both understood the Sound Money Solution well and believed in it knowing that it was anchored by solid Austrian thinking. We knew all too well what was required to effect the kind of national change the Sound Money Solution called for, but the problem was that the Sound Money Solution's required steps were highly unlikely to ever be implemented and we both sadly knew it. Evidence for this was in the fact that the Sound Money Solution was put forth decades ago and yet, in spite of all of the advances and growth the Austrian

School has had domestically and internationally, it was still a virtually unknown way of economic thinking by the general populace. Robert and I were both certainly doing our part in spreading the message with each of us speaking to various groups through out the country in our respective fields, but the process, we readily admitted, was slow and discouraging at times. We also knew our goal was not attempting to convince the entire nation, certainly not 300 million people. Austrian Economists know that 10% of the population would most likely be enough to turn public opinion in our favor; we simply do not have anywhere close to that 10%. Obviously we needed more people, but not just anybody. We needed the right kind of people, responsible and productive people. We needed people that would get involved and stay involved. Also, there needed to be a burning passion inside these people in order to see this change all the way to its successful end. What was clearly missing was some kind of individual incentive, but one that could work with the main tenets of the Sound Money Solution. What we wanted most was to break through the general pessimism that has hung like a black cloud over our School's predecessors. Henry Hazlitt, one of the most recognizable of the Austrian economist because of his affiliation with The Wall Street Journal, The New York Times and Newsweek and also the author of the number one best selling book, *"Economics In One Lesson,"* described this particular pessimism in one of his last public speeches as he passed the baton over to the next generation.

"When I look back on my own career, I can find plenty of reasons for discouragement, personal discouragement. I have not lacked for industry. I have written a dozen books. For most of 50 years, from age 20, I have been writing practically every weekday: news items, editorials, columns, articles; some 10,000 words! And in print! The verbal equivalent of about 150 average length books!

And yet, what have I accomplished? The world is enormously more socialized than when I began...yet in spite of this I am hopeful. After all, I'm still in good health, I'm still free to write, I'm still free to write unpopular opinions, and I'm keeping at it. And so are many of you. So I bring you this message: be of good cheer; be of good spirit. If the battle is not yet won, it is not yet lost either. Even those of us who have reached and passed our seventieth birthdays can not afford to rest on our oars and spend the rest of our lives dozing in the Florida sun. The times call for courage. The times call for hard work. But if the demands are high, it is because the stakes are even higher. They are nothing less than the future of human liberty, which means the future of civilization."⁽⁴⁾

(4.) Henry Hazlitt, 15 Great Austrian Economist, Copyright 1999 by the Ludwig von Mises Institute, Auburn, AL, pages 178, 179

What Robert and I began to do next was to get honest with each other. We agreed that our individual concern with regards to what we are experiencing in our political and economic affairs currently could be summed up in our knowing what ill effects all this economic upheaval is having on people's ability to make a living. We did not shy away from this reality. We had several very in depth and personal discussions about this concern. We knew that for most all of us in America, the need to be able to make a living is and always has been a crucial fact of life. It is the business from which we never retire. In fact, it is difficult to imagine any human being who is not preoccupied with this economic endeavor. In what ever manner we try to explain our society, or our government, in terms of the past, present or the future, we can not do it and ignore "*economic man*" and his innate need to make a living.

And then it happened! All of a sudden the entire theme of this book, from beginning to end, hit Robert like a 2 by 4 across the head. His eyes widened with utter amazement and he exclaimed with excitement, "That's it!" Moments later he admitted that the vision hit him with such force that he had not even seen it coming. It had never dawned on him until that very moment that what I, Paul and Nelson had been talking about all this time was actually "*step two*" of the Three Steps of the Sound Money Solution..., "**Privatized Banking!**" However, the spectacular and unbelievable part about it was that an individual could actually go into privatized banking right now! There was no need to wait on government to change. There was no need for the Sound Money Solution to be accepted and put forth into public policy. **Private banking could be done immediately and it could be done by virtually anyone!** Our creative energy suddenly soared and the missing incentive we had been searching for suddenly became clear and apparent. The answer-- the missing link, was simply the connecting of this innate need within man, the need to make a living, with the Sound Money Solution. The key was step two of the Sound Money Solution, the business of banking, privatized banking, the most profitable business in the world and it could be implemented right now by any individual citizen!



The Sound Money Solution

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- 3. Close Central Bank:** *Size and Expense of Federal Government would decrease, taxes go way down, savings and production go up.*

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