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BankNotes

The Nelson Nash institute Monthly Newsletter

Special Features of the Mutual Insurance Holding Company (MIHC)

By L. Carlos Lara

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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.

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

IN THIS MONTH'S ISSUE:

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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.)

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)

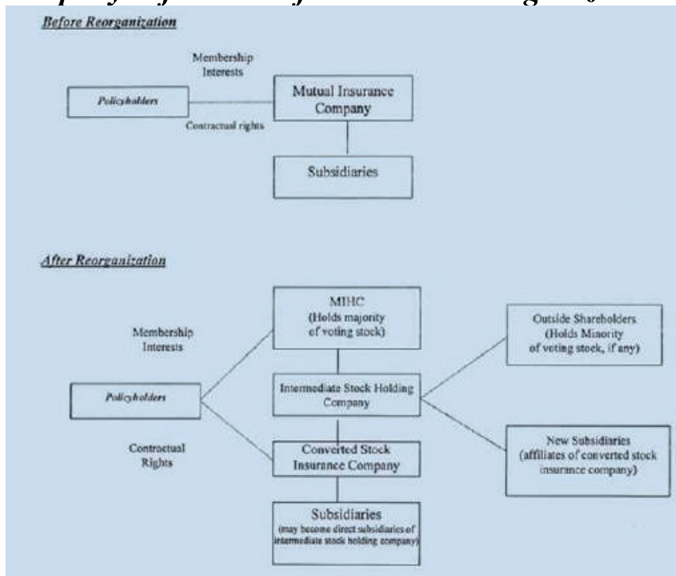
The demutualization process is lengthy, arduous and expensive because all the equity and surplus interest in the mutual must be exchanged for shares of stock. The regulatory review process is time consuming in that it has to insure that the policyholders receive fair value for their interest in the company. 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 policy-holders." 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 alternative 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.

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.soa.org/globalassets/assets/library/newsletters/financial-reporter/2000/february/frn0002.pdf

C.S. Lewis on How to Be Yourself

by Barry Brownstein

When faced with a challenge, most of us have received advice to "just be yourself."

Those offering advice have good intentions. Yet, we might think, "I'm anxious, frightened, and insecure. I don't want to be myself."

C.S. Lewis would agree that the self-concept we have created is unreliable. Fortunately, the self we have created is a pitiful parody of our True Self. Lewis wrote:

> The more we let God take us over, the more truly ourselves we become—because He made us. He invented us. He invented all the different people that you and I were intended to be … It is when I turn to Christ, when I give up myself to His personality, that I first begin to have a real personality of my own.

In my opinion, you don't have to be a Christian to experience the truth in Lewis' observations, but you have to believe there is something greater than the limits of your thinking. For Lewis, Christ represents Divine Love beyond anything that you or I can understand or create. Our intellect can't understand what is beyond understanding, but the intellect can point us towards our birthright.

In dialogue with philosophy professor Renee Weber, the late quantum physicist David Bohm echoed the wisdom of C.S. Lewis:

> Individuality is only possible if it unfolds from wholeness. Ego-centeredness is not individuality at all. Ego-centeredness is centered on the self-image which is an illusion and delusion. Therefore it's nothing at all. True individuality means you have a true being which unfolds from the whole in its particular way for that particular moment.

By wholeness Bohm meant the underlying order and unity of life. Lewis and Bohm are pointing in the same direction, our real individuality, the self we want to be, comes from the Whole, from Divine Love.

In his book, Mere Christianity Lewis helps us understand the difference between our self-concept and our True Self. First, Lewis advises we must stop looking for our True Self; look instead for God.

> The very first step is to try to forget about the self altogether. Your real, new self (which is Christ's and also yours, and yours just because it is His) will not come as long as you are looking for it. It will come when you are looking for Him.

Lewis asks, does it "sound strange" to forget the self to find the Self? Lewis explains, this indirect path "runs through all life from top to bottom":

> Even in social life, you will never make a good impression on other people until you stop thinking

> about what sort of impression you are making. Even in literature and art, no man who bothers about originality will ever be original: whereas if you simply try to tell the truth (without caring… how often it has been told before) you will, nine times out of ten, become original without ever having noticed it.

Anticipating our reluctance, Lewis anticipates our questions: Wouldn't it be boring to be "one" with God? Wouldn't we be all "exactly the same"? Lewis uses the metaphor of adding salt to food. If you tasted salt for the first time and were told that salt is added to many dishes, you might imagine that all food would have the same salty taste. Lewis points out, "The real effect of salt is exactly the opposite… [Food does] not show [its] real taste till you have added the salt."

Humans need salt, and they need God's Love. Lewis writes, "The more we get what we now call 'ourselves' out of the way and let Him take us over, the more truly ourselves we become."

Lewis pointedly writes, "It is no good trying to 'be myself' without Him."

Again, Bohm points us in the same direction as Lewis. He told Professor Weber, "People are not realizing their potential for uniqueness because insofar as they follow their predispositions, they're part of the mass."

Lewis and Bohm are pointing toward a direction we are not used to. We might sense, I know what Lewis is saying is true, and then observe, but so often I live my life as though it is not true.

Honest observation provides a pathway to "give up myself to His personality." As we get as much of not-God out of the way, God will fill the void and the personality of our True Self will come to the forefront.

To get not-God out of the way, become more aware of your stream of thinking throughout the day. Notice your petty grievances and your attachment to your narrative about your troublesome feelings. Notice, too, how your self-concept inflates and deflates as life unfolds.

That ceaseless narrative in your head causes endless problems for you and others when you allow it to direct your experience of life. Lewis advises us to look at the self we have made; when we do, "[we] will find in the long run only hatred, loneliness, despair, rage, ruin, and decay," coming from our self-concept.

As much as we may like to, we can't skip the step of looking at how our self-concept miscreates. Are we willing to consider, for example, how often we value a grievance over God? Lewis writes:

> The more I resist Him and try to live on my own, the more I become dominated by my own heredity and upbringing and surroundings and natural desires. In fact, what I so proudly call 'Myself' becomes merely the meeting place for trains of events which I never started and which I cannot stop.

The next time someone advises, "just be yourself" think of the advice of C.S. Lewis and smile. Use that trite phrase as a call to get the self you have made out of the way so as to remember who you truly are.

The Golden Rule Is as Golden as Ever

by Lawrence W. Reed

For three hours, the famous "standoff at the schoolhouse door" riveted the country's attention. Alabama Governor George Wallace physically blocked the entrance to Foster Auditorium at the University of Alabama in Tuscaloosa.* His intent was to prevent two students from registering for classes. Why?

It had nothing to do with the content of their character and everything to do with the color of their skin. The students were African-American.

The confrontation ended when Wallace backed down. Years later, he expressed regret for his actions and was embraced by many Alabama blacks. Repentance, forgiveness, fairness, and opportunity prevailed.

The Ethic of Reciprocity

On that tense June 11 in 1962, President Kennedy watched the scene on a black-and-white television in the White House. Relieved that violence was avoided, he made a snap decision to speak to the nation about civil rights that very evening. Here's part of what he said:

> *The heart of the question is whether all Americans are to be afforded equal rights and equal opportunities, whether we are going to treat our fellow Americans as we want to be treated. If an American, because his skin is dark, cannot eat lunch in a restaurant open to the public, if he cannot send his children to the best public school available, if he cannot vote for the public officials who will represent him; if, in short, he cannot enjoy the full and free life which all of us want, then who among us would be content to have the color of his skin changed and stand in his place?*

The president had invoked what philosophers call "the ethic of reciprocity," a moral principle—an ideal, actually—so universal that you can find it manifested in virtually every culture, religion, and ethical tradition. In Christianity, it is known as the "Golden Rule." It's a concept that just about everybody everywhere will tell you they admire even when they don't live up to it.

The Golden Rule as an Ideal

I didn't mention it in my recent Prager University video, "Was Jesus a Socialist?" but Jesus himself spoke the Golden Rule, recorded in Luke 6:31 and Matthew 7:12 ("So in everything, do to others what you would have them do to you, for this sums up the Law and the Prophets"). He expressed it another way in Mark 12-28-34 when asked what the greatest of all commandments were. Second only to loving God, it was vital, he said, to "love your neighbor as yourself."

Human beings are not God, so we're far from perfect. We break commandments, as well as our own word. By our behavior, we sometimes make it very difficult for other mortals to love us. Among us are a great many who lie, cheat, steal, and even assault the innocent. No significant faith or tradition suggests we are to ignore these evils or deny ourselves the right of self-defense against them. So again, think of the Golden Rule as an ideal—a very lofty precept we should set our minds to and one that is only compromised or abrogated when another person initiates its violation.

Amazing, isn't it, that some people think because Jesus favored helping the less fortunate, he would support compulsion to do it?

Wouldn't you want to live in a perfect world where everybody practices the Golden Rule all of the time instead of just most of the time? What would such a world look like? It would, I believe, be a world of peace and productivity. You could go about your business without fear that your life or possessions would be taken from you because no one who might take them would want such a calamity to happen to them. No bullying, for any reason or purpose.

That puts a negative spin on the Rule ("don't do such-and-such"), but there's also a positive side to it. If another person is sick or "down and out" in some other way, and you're in a position to help as a parent, relative, friend, or philanthropist, you would probably assist—in part because you'd want others to help you if you were in a similar situation and in part because you might be instinctively sympathetic, anyway.

Help Each Other Voluntarily

This is why the Samaritan who helped the man in need is regarded universally as "Good." Jesus frequently urged people to help each other, but he never, ever—repeat: never, ever—suggested that this be done through third-party coercion. It was to be personal and voluntary, always. How can we otherwise know what's really in your heart? The Good Samaritan wasn't "Good" because he forced somebody else to help the man. In that famous parable, none of these things are present: politicians, force, taxes, bureaucracy, debt, or vote-buying demagoguery.

One Facebook friend, Ted Kucklick, put it this way in a comment on one of my posts: “Jesus told YOU to walk the extra mile. He NEVER told you to hire the Romans to force your neighbor to do it for you.”

Another Facebook friend, Jim Kress of Michigan, took the matter a step further:

> *Jesus's imperatives to us are individual responsibilities, not collective ones. Using government force to steal from some of us and then distributing that stolen property to others does not satisfy those imperatives. As a matter of fact, that is offensive to Jesus because the so-called 'charity' resulting from theft is a sin, a clear violation of the Golden Rule and the Tenth Commandment.*

I challenge anyone to find a passage in Scripture in which Jesus called upon any government—Roman, Jewish, or other—to tax some and give to others as a method of assisting the needy.

Amazing, isn't it, that some people think because Jesus favored helping the less fortunate, he would support compulsion to do it? What a leap! He also favored eating, drinking, sleeping, washing, fasting, and praying—but he never remotely implied that those things required government programs and taxes to pay for it.

If Jesus was at all sympathetic to what we know today as the compulsory redistribution aspect of socialism, surely he would have somewhere said, “Thou shalt use the force of the State to take from Peter and give to Paul,” or “Demand that your magistrates and rulers relieve you of the responsibility to assist your fellows in need,” or “Eliminate the middleman and just take it yourself as long as you intend to do good with it.” He said no such thing, ever.

The Economics of the Golden Rule

Adam Smith, admired for his influential 1776 book The Wealth of Nations, deserves just as much admiration for his earlier work, The Theory of Moral Sentiments. It was in that 1759 book that he postulated a version of the Golden Rule as a foundation for the evolution of generally accepted moral standards. As we enter adulthood and slowly jettison the exclusive focus of our infancy on “self,” we begin to judge our personal behavior the way a third-party “impartial spectator” would, as elucidated by Smith scholar James Otteson in “Adam Smith: Moral Philosopher”:

> *We have all experienced the unpleasantness of being judged unfairly, that is, on the basis of biased or incomplete information (people who do not know our situation thinking poorly of us). This leads us to desire that others refrain from judging until they know the whole story; but because we all want this, our desire for mutual sympathy of sentiments subtly encourages us to adopt an outside perspective, as it were, in judging our own conduct.*
>
> *That is, because we want others to be able to “enter into” our sentiments, we strive to moderate them to be what we think others will sympathize with; but we can only know what that is if we ask ourselves what the impartial observer would think. The voice of the impartial spectator becomes our second-nature guide of conduct. Indeed, Smith thinks it is what we call our “conscience.”*

The great capitalist philosopher and economist Smith demonstrated, as Otteson puts it, that “a person's (largely unconscious) adoption of general rules, development of a conscience, and employment of the impartial spectator procedure are motivated by a fundamental, innate desire—the desire for mutual sympathy.” That's the Golden Rule in action.

Standards of conduct can be enforced by man-made law, but the law itself is not their origin. The most the law can do is recognize and uphold what men and women have come to generally accept through a spontaneous, organic process. As the French economist and statesman Frederic Bastiat wrote in The Law:

> *Life, liberty, and property do not exist because men have made laws. On the contrary, it was the fact that life, liberty, and property existed beforehand that caused men to make laws in the first place.*

At the core of the moral universe is our innate desire for "mutual sympathy." Christians, and many people of other faiths, as well, believe that such sympathy is implanted by God as an element of our nature, but a belief in God is not actually necessary to accept the notion itself. You can be of another faith, or of no faith, and recognize that humans progress to the extent they get along and work together for mutual benefit.

The Golden Rule and the Decalogue

Whenever you think it might have first happened, and whether you believe it was God-inspired or evolutionary happenstance, it was a great day in human history when individuals decided to treat others the way they themselves would want to be treated.

The first four of the Ten Commandments involve the individual's relationship with God. The last six deal with the individual's relationships to other individuals, and all six of those are, in fact, extensions of the Golden Rule.

We are to honor our parents. We hope that our children will honor theirs.

We are to refrain from murder. We want others to regard life with the same respect.

The very essence of a free marketplace is voluntary, mutually-beneficial exchange.

We are advised that adultery is wrong. We are grievously offended when someone else commits it with our spouse.

Commandments Eight through Ten warn against stealing, lying, and coveting. We don't like it when others steal from us, lie to us, or regard what's ours with an envious eye.

Is the Golden Rule relevant to matters of business? You bet it is!

Barry Brownstein is professor emeritus of economics and leadership at the University of Baltimore and the author of The Inner-Work of Leadership. When I asked him that very question, he replied:

> *Successful corporations, such as Southwest Airlines, Cisco, and L.L. Bean, have learned that making the Golden Rule the foundation of their corporate culture is a key to success. You can't earn profits if you don't treat your customers right by meeting their most pressing needs. And you can't meet customers' needs without the ability to empathically see the world through their eyes. Make the Golden Rule your way of life and sell great products, taught Leon Leonwood Bean, the founder of L.L. Bean, and your customers "will always come back for more."*

The very essence of a free marketplace is voluntary, mutually-beneficial exchange. Though some small fraction of all trades may involve mistaken judgments, outright deception, or buyer's remorse for any number of reasons, most transactions are wins for everybody. Each trader believes that what he's trading for is worth more to him than what he's giving up. This is only true when trades are entered into freely. If a party is forced to trade, he almost certainly believes he'll be worse off after the fact.

Compulsion is as incompatible with the Golden Rule as fraud. In the marketplace, we offer each other something of value. If another party says, "No, thank you," we don't pull out a gun and demand that he trade. If we did, we certainly wouldn't be doing to him what we would like him to do to us.

Socialism Is a Stick, Not a Carrot

This is why socialism nullifies the Golden Rule. Socialists proclaim "solidarity with the people." They say they only want to help others. The problem is how they seek to do it. If their plans were in the realm of friendly advice, helpful hints, and requests for voluntary participation, they wouldn't be socialists. Capitalists invite and offer advice, hints, and participation all the time—with carrots, not sticks. There's abundant truth in the popular internet meme that says, "Socialism—Ideas So Good They Have to Be Compulsory." If socialists actually help some people (and that is itself debatable), they do so only by hurting others.

The Golden Rule is as golden as ever. It's just that some people earnestly think they have something better in mind for their fellow citizens.

The Golden Rule demands that we respect each other's differences, find common ground, and deal with each other voluntarily. It stresses a mutuality of benefit as measured personally and subjectively by each party to an interaction. By its reliance on force, socialism tells us, "You're going to be drafted into this whether you like it or not because we think it's good for you, or at least good for somebody."

If you're a socialist, you need to ask yourself why you want to handle so many issues and problems at gunpoint. Why must the cops (government force) be involved in everything? Where's your faith in and respect for your fellow citizens? You're so certain that forcing others to bend to your will is a good thing; would you mind if we turn the tables and do the same to you? If not, then I want to know why you get to do these things but we don't. What makes you so special? As Bastiat bluntly stated it:

> *If the natural tendencies of mankind are so bad that it is not safe to permit people to be free, how is it that the tendencies of these organizers are always good? Do not the legislators and their appointed agents also belong to the human race? Or do they believe that they themselves are made of a finer clay than the rest of mankind?*

The Golden Rule is as golden as ever. It's just that some people earnestly think they have something better in mind for their fellow citizens.

For further information, see:

"Was Jesus a Socialist?"—a Prager University video

"Rendering Unto Caesar: Was Jesus a Socialist?"—and the essay by Lawrence W. Reed

"Business and Ethics" by Edmund A. Opitz

"Jesus on Wealth Redistribution: What He Said and Didn't Say" by Randy England

"What It Means Politically to Imitate Jesus" by David Gornoski

*Correction: The original version of this article stated Gov. Wallace physically blocked the entrance to Foster Auditorium at the University of Alabama in Birmingham. The university is located in Tuscaloosa, not Birmingham.

Lawrence W. Reed is President Emeritus, Humphreys Family Senior Fellow, and Ron Manners Ambassador for Global Liberty at the Foundation for Economic Education. He is also author of Real Heroes: Incredible True Stories of Courage, Character, and Conviction and Excuse Me, Professor: Challenging the Myths of Progressivism. Follow on Twitter and Like on Facebook.

This article was originally published on FEE.org. Read the original article.

Why College Tuition Is so Expensive

by Jon Miltimore

Like many Americans, Will Roberson borrowed a lot of money to attend college. The 21-year-old racked up nearly $150,000 studying business at Morehouse College in Atlanta.

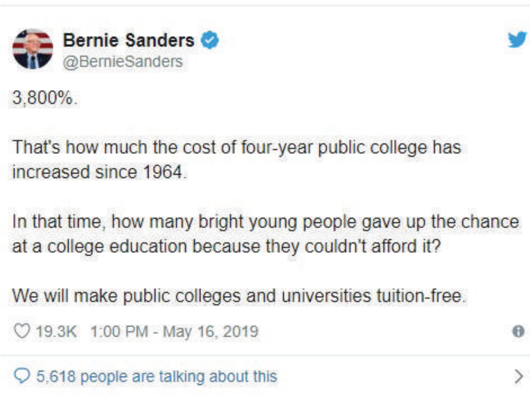
The Student Debt Crisis

His life changed on graduation day, however, when private equity titan Robert Smith announced he would pay off the student loans of all 400 hundred graduates. An enormous burden had been lifted. While we can take pleasure in Roberson's story, most students won't have their debts erased by billionaires.

Americans owe more than $1.56 trillion in student loans, about 50 percent more than total credit card debt. Nearly 70 percent of the class of 2018 took out student loans, at an average of roughly $30,000.

Presidential contender Bernie Sanders recently tweeted out his concerns:

The Vermont senator is not wrong about surging costs (though he ignores inflation, skewing his analysis), yet he overlooks the fact that it was federal policy in the first place that encouraged countless



students to pursue degrees they could not afford.

The Higher Education Act of 1965 directed taxpayer dollars to low-interest loans for students pursuing college. Though the program started small, today roughly 90 percent of all student loans are issued by the government—the Department of Education now oversees $1.3 trillion in debt.

Defaulted Loans

Some graduates are unlikely to ever pay back these loans. Simon Galperin has $235,000 in student debt and makes monthly payments of less than $50. He's not even covering the interest, meaning his total debt keeps growing.

And Federal Reverse data show nearly 20 percent of students who took out loans are in default or nearing delinquency, triple the rate of mortgage loans. Meanwhile, the Brookings Institution predicts up to 40 percent of students who enrolled in college in the 2000s could be in default by 2023.

To these desperate borrowers, proposals by Sanders and fellow presidential contender Elizabeth Warren to abolish or forgive student debt understandably seem tempting. Offering what feels like "free money" to young people with little experience managing their finances results in economically irrational behaviors.

Warren has proposed moving $50,000 in student debt (per household earning less than $100,000) onto taxpayers. Sanders one-upped Warren, unveiling a proposal to shift the entire $1.6 trillion tab in an effort "erase" the debt.

Such moves subsidize Americans who attended college with the wages of those who didn't.

Bureau of Labor Statistics data show that educated Americans—even those who failed to graduate—have greater earning potential than those who did not attend college. Sanders' plan pays off the loans of the future upper class. This would have unforeseen consequences.

In their bestselling book Freakonomics, authors Steven Levitt and Stephen Dubner describe the power of economic incentives—pressures to behave in a certain way—calling them "the key to solving just about any riddle."

Offering what feels like "free money" to young people with little experience managing their finances results in economically irrational behaviors. Students can pursue loans without knowing whether the degree they earn will allow them to pay off future debts.

Twisted Incentives

Federal loans have made tuition far more expensive. Universities get paid up front—so whether students graduate, drop out, or default on the loan doesn't matter. Departing students are easily replaced. Confident that students have access to cheap money (which can be expensive in the long run), colleges have no incentive to control or cut back the prices of housing, tuition, fees, and meals.

Instead of erasing student debt, we should address the twisted incentives that cause it. Students are beginning to recognize that four-year degrees don't always pay off, and are opting for alternatives: apprenticeships, entrepreneurial programs, and coding camps.

If universities themselves offered loans, incentives would push them toward controlling costs and maximizing student success after graduation.

We should also encourage cost-benefit thinking. Not all student debt is equal. If borrowing $75,000 helps you graduate medical school, that debt measurably increases your earnings even after it's paid off. But borrowing against a degree in social work, where median earnings are less than $50,000, is much riskier.

The best solution is to get the federal government out of the loan business altogether.

If universities themselves offered loans, incentives would push them toward controlling costs and maximizing student success after graduation. Another option is income share agreements, which allow potential employers or independent organizations to pay tuition in exchange for a percentage of the students' future earnings. The concept, pioneered by economist Milton Friedman is increasingly popular, especially in Latin America.

Incentives Matter

The practices would return education to better economic incentives, resulting in far fewer sad debt stories. Better incentives align the interests of educators, employers, students, and parents, and let taxpayers (especially those who didn't have the chance to attend college) off the hook for others' choices.

The student debt crisis should remind us of the painful consequences of interfering with incentives to manipulate others' choices.

When markets seem to falter—recent, painful examples include the student loan bubble and housing crisis—the culprit is often government intervening in a way that warps incentives. When we try to modify or '"improve" others' choices without understanding the relevant pressures, those efforts often backfire.

So the student debt crisis should remind us of the painful consequences of interfering with incentives to manipulate others' choices. By stripping away responsibility, we may have destroyed opportunity.

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How Government Programs Ruined Childhood

by Kerry McDonald

An op-ed in Sunday's New York Times entitled "We Have Ruined Childhood" offers disheartening data about childhood depression and anxiety, closely linked to school attendance, as well as the disturbing trend away from childhood free play and toward increasing schooling, standardization, and control.

"STEM, standardized testing and active-shooter drills have largely replaced recess, leisurely lunches, art and music," says the writer Kim Brooks, who is the author of the book, Small Animals: Parenthood in the Age of Fear.

While many of Brooks's insights are spot-on, the undertones of her article make clear that she is focused on the collective "it takes a village" narrative of childrearing. Indeed, her book praises "the forty-one industrialized nations that offer parents paid maternity leave—to say nothing of subsidized childcare, quality early childhood education, or a host of other family supports" (p. 50).

The assertion is that most parents are desperate and alone and they must rely on government programs to help raise their children. She writes in her article:

> *The work of raising children, once seen as socially necessary labor benefiting the common good, is an isolated endeavor for all but the most well-off parents. Parents are entirely on their own when it comes to their offspring's well-being…No longer able to rely on communal structures for child care or allow children time alone, parents who need to work are forced to warehouse their youngsters for long stretches of time.*

This narrative is backwards. It was the expansion of government programs, particularly in education, that weakened the family, led many parents to abdicate responsibility for their children's upbringing, and caused them to increasingly rely on government institutions to do the job for them. These institutions, in turn, grew more powerful and more bloated, undermining the family and breeding contempt for parental authority. What may seem like a charitable endeavor to help families ends up crippling parents and emboldening the state. As President Ronald Reagan reminded us: "The nine most terrifying words in the English language are: I'm from the Government, and I'm here to help."

Brooks knows better than many of us the terror associated with granting the state more power: Her book details her harrowing ordeal of being accused of child neglect and ordered to complete 100 hours of community service for leaving her child alone in a car for five minutes while she ran a quick errand. The village shouldn't be in charge of raising children; parents should.

So how did we get here? While the seeds of mounting state power and institutionalization were sown in the 19th century and spread throughout the 20th, it was Democratic President Lyndon B. Johnson who dramatically accelerated these efforts in 1964-1965 with his "Great Society" legislation. One of the most consequential effects of Johnson's Great Society proposal was getting Congress to pass the Elementary and Secondary Education Act of 1965 (ESEA) which gave unprecedented control of education to the federal government, mainly through the funding of a variety of government programs. In fact, expanding the government's role in education was a stated goal of the Great Society plan. As Johnson himself stated: "And with your courage and with your compassion and your desire, we will build a Great Society. It is a society where no child will go unfed, and no youngster will go unschooled." (Heaven forbid a child be unschooled!)

The result of Johnson's plan was the establishment and enlargement of programs such as Head Start, which was initiated in 1965 to provide government preschool and nutrition programs to low-income children. Despite billions of dollars spent on the federal Head Start program over the last half-century (the annual Head Start budget is over $10 billion in 2019), the results have been disappointing. As researchers at the Brookings Institute noted, the most in-depth studies of Head Start show that any initial gains disappeared by the end of kindergarten. More troubling, by third grade the children in the Head Start program were found to be more aggressive and have more emotional problems than children of similar backgrounds who did not attend Head Start.

Perhaps the most far-reaching impact on education of LBJ's Great Society was the lasting legacy of the Elementary and Secondary Education Act.

Not only are these outcomes concerning for the children involved, they also indicate how government programs can strain family relationships. Notably, it was the parents of the Head Start children who said their children were more aggressive than non-Head Start children of similar backgrounds, suggesting that parental bonds could be compromised at the same time that government early learning programs could foster maladaptive social behaviors. When parents, not government, are in charge of determining a child's early learning environment they may rely on informal, self-chosen networks of family and friends, thus building social capital in their communities, or they may choose from among various private preschool options where they retain control over how their child learns. If parents are not satisfied, they can leave. When government increasingly controls early childhood programs, reliance on family members, friends, and other private options fades. Grandma is no longer needed, and she becomes less of an influence in a child's life and learning and less of a support system for her daughter or son.

Johnson's Great Society plan had other consequences that served to weaken family roles and strengthen government. The Child Nutrition Act of 1966 greatly expanded the National School Lunch Program, allocating additional funding and adding school breakfasts. While no one wants a child to go hungry, relying on government programs to feed children can cause poor health outcomes, strip parents of their essential responsibilities, weaken informal family and community support systems, and lead parents to hand over even more control of childrearing to the government.

Perhaps the most far-reaching impact on education of Johnson's Great Society was the lasting legacy of the Elementary and Secondary Education Act that paved the way for ongoing and amplified federal involvement in education. It was the ESEA that was reauthorized in 2001 as the No Child Left Behind Act (NCLB) that led to the standardization of schooling through Common Core curriculum frameworks, as well as regular testing. No Child Left Behind morphed into the Every Student Succeeds Act of 2015, again a reauthorization of Johnson's ESEA, that tried to shift some curriculum standard-setting to states but retained regular testing requirements under federal law.

In her weekend op-ed, Brooks laments the increasing role of regimented schooling in children's lives. She writes:

> *School days are longer and more regimented. Kindergarten, which used to be focused on play, is now an academic training ground for the first grade. Young children are assigned homework even though numerous studies have found it harmful.*

She is absolutely correct, and the culprit is increasing government control over American education through the ongoing reauthorization and expansion of federal education programs. Longer, more regimented, more standardized, more test-driven schooling is a direct consequence of the government's education policy.

Childhood is being ruined and parents are the only ones who can save it.

The inevitable result of these expanded government powers is less control over education by parents. As parents lose this control, they cede more authority to government bureaucracies, which in turn grow more powerful and more bloated while parents get weaker and more vulnerable.

I agree that childhood is being ruined, as children play less, stress more, and find themselves in institutional learning environments for most of their childhood and adolescence. I also agree that the problem is getting worse. The solution, however, is to weaken government and strengthen families, not vice versa. Put families back in charge of a child's education. Grant parents the respect and responsibility they rightfully deserve. Remember that the government's role is to secure our natural rights of life, liberty, and the pursuit of happiness—not to determine what those pursuits are.

Childhood is being ruined and parents are the only ones who can save it.

Kerry McDonald is a Senior Education Fellow at FEE and author of Unschooled: Raising Curious, Well-Educated Children Outside the Conventional Classroom (Chicago Review Press, 2019). Kerry has a B.A. in economics from Bowdoin College and an M.Ed. in education policy from Harvard University. She lives in Cambridge, Massachusetts with her husband and four children. You can sign up for her weekly newsletter on parenting and education here. This article was originally published on FEE.org. Read the original article.

Fifth in a monthly series of Nelson Nash's personally written Becoming Your Own Banker© lessons. We will continue these lessons until we have gone through the entire book.

PART 1 Lesson 5 The Grocery Store

Content: Page 15, *Becoming Your Own Banker Fifth Edition*

Continuing our exercise in imagination, I would like to put you into a business in which you are both a seller and a consumer of products. I pick the grocery business since everyone uses groceries -- there are no exceptions. Someone must perform the function of the grocer. You have an unlimited market. Everyone is a potential customer -- as well as you and your family and maybe some other "captive customers" – these are folks who are not going somewhere else to buy groceries.

Before getting into the business you need to study it for at least two years. You had better understand it inside and out before you start or your competition will "eat your lunch!" It is a very competitive business. This is going to take some time and expense.

Next, you must find a superior location for your business. Real estate agents say there are three qualities of real estate -- location, location, and location. This is not an overnight activity. You are going to spend some time getting the right property and for this you are going to have to pay a premium price.

Now you are going to have to put an attractive building on that very high- priced property. This, too, is going to cost you a lot of money.

Then, you must stock the store with quality merchandise and it must be attractively arranged and maintained. This means you are going to have to have "hired help" (that's "Southern" for employees)-- you are never going to be able to run this business alone. Mom and Pop grocery stores are gone forever. Face it! Your employees must be attentive to customer needs, courteous and neat. You have spent a lot of money and time just to get to this point -- and you haven't made a dime yet!

At long last, you open the front door for customers -- they come in and load their carts with groceries and take them by the cashier who collects their money at the front of the store. This is going to leave empty spaces in the display of goods. Your "hired help" is busy cruising the aisles, noticing where goods have been sold and very quickly going to the storeroom at the back of the store to get more things to fill up those spaces. It is imperative that the store appear to be fully stocked at all times. The customers demand it. Have you ever been to a grocery that was only partially stocked? Do you go back there to shop or do you go to some other store where managers pay closer attention to their business?

All of this means that you are going to have to re-stock the storeroom at other intervals to insure that you have immediate access to an adequate supply of groceries. Once you have all this set up and in operation, the difference between the "front door" and the "back door" is a very good living -- if you can turn the inventory enough times during the year. If you sell a can of peas for 60 cents at the front door, you have to replace it at the back door at a cost of 57 cents. (I have found this to be a shocking revelation to most everyone). Grocery stores operate on a very small margin on such items. There is a different markup on meats, produce, and certain other items, but for things like canned goods that's the way it is.

The can of peas sitting on your shelves is inventory and you must turn the inventory 15 times just to break even. There is all that interest you must pay on the huge sums of money you have borrowed to buy the land, the building, the inventory, the signs, advertising, payroll and fringe benefits, utilities, legal fees, accounting, etc. just to name a few. Turn the inventory 17 times per year and you have a nice profit. If you can turn the inventory 20 times per year you can retire early. Something dramatic happens once you get "over the hump."

This reminds me of a phenomenon in physics – get a bucket of water at seaside (I want you at sea level) and heat it up to 210 degrees Fahrenheit and all you have is very hot water. Heat is up just 2 more degrees and you have live steam with unbelievable power! The steam engine changed the world. But it doesn't happen until you get to 212 degrees F at sea level. Lots of heat goes into the process up to the boiling point but the dramatic power comes suddenly.

The objective of the business is to provide you with an income and to show a continuous profit picture over a long period of time, say 30 to 40 years. Then you sell the business and use the proceeds to buy a large annuity that will pay you retirement income for the remainder of your life.

So far, we have a very simple business. In the next lesson we will introduce the complications that can destroy your business. See you then!

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

- Glen Zacher - Edmonton, Alberta
- Teresa Kuhn - Austin, Texas
- Melany Newsham - Beaumont, Alberta
- Pedro Palicio - Coral Gables, Florida
- James Neathery - Fort Worth, Texas
- Harry Smallwood - Columbus, Ohio
- Scott Guldin - North Huntingdon, Pennsylvania
- Robbie Schilly - Crystal City, Missouri
- Tony Coccarelli - Richardson, Texas
- Lauren Gidley - Williamsville, New York
- Anthony Faso - Las Vegas, Nevada
- Chris Bay - Lawrence, Kansas
- Frank Riedel IV - Raleigh, North Carolina
- Brent Kesler - Port Orange, Florida
- Timothy Bogert - Rochester, Michigan
- Jerold Wood - Robertsdale, Alabama
- Levi Clock - Lawrence, Kansas
- Jon Webster - Chandler, Arizona

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IBC Practitioner's have completed the *IBC Practitioner's Program* and have passed the program exam to ensure that they possess a solid foundation in the theory and implementation of IBC, as well as an understanding of Austrian economics and its unique insights into our monetary and banking institutions. The *IBC Practitioner* has a broad base of knowledge to ensure a minimal level of competency in all of the areas a financial professional needs, in order to adequately discuss IBC with his or her clients.

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