

# BANKNOTES

The Nelson Nash Institute Monthly Newsletter

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## A Closer Look At Businesses Part I

By L. Carlos Lara

According To *The Kauffman Index of Startup Activity*<sup>1</sup> the share of new entrepreneurs who started businesses to pursue opportunity rather than from necessity is now up more than 12 percentage points higher than in 2009 at the height of the Great Recession. This of course is a very encouraging nationwide trend and I extend my admiration to all those individuals who have ventured out into an endeavor where only about half survives the first five years in operation. Obviously, by any measure, these are certainly not great odds so I also applaud their courage and their desire to start their very own enterprise.

It's difficult to know exactly why half of these new business startups will eventually not make it and will be forced out of business before their fifth anniversary, if not sooner. What could it be? We will explore some of those reasons in this article. Yet even when I look back at the history of my own business, I am not sure that I can pinpoint exactly what has made the difference in my company's longevity. All I know is that my business today looks nothing like the business I started 42 years ago, but then again neither does the economy of 2018 resemble the economy of 1976. I suspect that similar and brand new economic challenges await this new group of budding entrepreneurs.

Going into business is an intimidating big step for anybody and if you are considering it for yourself this article may actually be helpful in drawing your attention to some of the more indispensable elements of a business enterprise. My intention for this first part of my summary is to merely present an overview of some of the more core components of going into business for oneself, the things you often hear about, but perhaps just pass over entirely too quickly without giving them enough serious thought. Who knows, one or two points expressed in a particular way in this article could potentially make the vital difference in your success, or even perhaps dissuade you from going through with the venture altogether.

What I will be pointing out are the important basics of a business

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**NELSON NASH  
INSTITUTE**

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combined with some significant historical facts in order to provide a frame of reference. One such example would be simply answering the question: “*What is a business?*” With a 50% failure rate by the fifth year I am not going to take it for granted that all those going into business for the very first time know exactly what they are getting into.

## WHAT IS A BUSINESS?

Untold manuscripts in book form and otherwise have been written on this particular subject so there are countless ways to define a business. But certainly one main important component of a business is that it is an *economic activity* involving a continuous production and distribution of goods or services for the express purpose of satisfying human wants. The main objective of these pursuits is a monetary reward, commonly known as a *profit*.

For all these undertakings to occur as described a business must have enough satisfied customers buying its products and services on a continuous and consistent basis, otherwise the business has no reason for being and its lifespan will be short lived. Consequently, another central feature of a business is that they are inherently predisposed to many different kinds of risks and uncertainties that will endanger the life of the business beginning very soon after it is born. To counteract these life-threatening obstacles a business must have a sound business plan from the very start to carry it forward as a profitable going concern.

While hundreds of thousands of businesses fail each year it’s noteworthy that the oldest and still operating *non-farm* business in the United States is 395 years old! This is the *Avedis Zildjian Company*,<sup>2</sup> a cymbal and drumsticks manufacturer based in Norwell, Massachusetts.

*The Seaside Inn*<sup>3</sup> in Kennebunkport, Maine is another business that has been in continuous operation under the same family since 1667. Before the arrival of motorized vehicles, inns such as this one not only provided lodging for travelers, but they also provided an assortment of other goods and services like food, drinks, and even accommodations

for horses.

While these are only two examples of the oldest businesses<sup>4</sup> in the United States there is actually a list of 80 to 100 such companies engaged in commercial, industrial, and professional activities that were established over 200 years ago and yet are still in operation to this day. All to say that a business, despite the many headwinds it faces just to keep itself alive, has the potential to grow and prosper for a very long time into the future.

Of course behind and at the helm of these businesses are individuals. A founder of a business is an individual that is often referred to as an *entrepreneur* and it is he or she who first conceives of the business concept (the idea), gives the business its name, and establishes its primary business strategy. Business founders (entrepreneurs) are also known as businessmen or businesswomen. At the same time they can also be referred to as *capitalists* because their businesses own their capital and are capable of producing goods and services, which they sell, trade, or convey to others. Capitalists, by the very nature of their economic activities, must constantly compete with other capitalists for the purchasing power of the *consumer* who is the ultimate source of the sought after profit. The primary means for getting the attention of the consumer is through *marketing*.

## COMPETITION AND BUSINESS

Like it or not, competition is also an essential component of businesses. Every consumer market gives rise to many businesses seeking to serve it. Additionally, the demand for a certain product or service can be here today and gone tomorrow because the wants and the needs of consumers are constantly changing. This in turn gives rise to newer forms of businesses eager to fulfill the new demand and that adds to the existing competition within the same consumer market. For this reason, how a product or service is to be marketed to consumers is vitally important to the welfare of the newly formed business and why it is part of the overall business plan at conception.

Even though a business plan is laid out at the outset,

marketing problems do develop quite quickly in the life of a new business when competition from other similar businesses and new start-ups enter the field and begin to run away with revenue. Depending on the type of business and its market share this can lead to marketing wars as businesses ramp up their advertising in an effort to lure back the consumer. This is why entrepreneurs must fully understand the buying habits of their customer and they must know how to market to them as their desires change over the course of time.

Mises, the great defender of capitalism and entrepreneurship, has a poignant observation about businessmen stating that “...as a rule capitalists and entrepreneurs are not saints excelling in the virtues of self denial,”<sup>5</sup> which in a sense implies that competition among businesses in trying to woo consumers can become fierce (cutthroat) at times often pushing the “self-interest” envelope into the area of selfishness. Who among us has not witnessed that form of human behavior in action to know exactly what Mises meant? In fact those who oppose the market system that capitalists operate in often say that it pits men against one another in a quest for material gain and draws from them baser human motives, such as greed.

Unfortunately, this incorrect view of business competition by those who oppose the free enterprise system has been one of the main drivers of government intervention in the market economy, which has spawned all kinds of regulatory measures that result in hindrances to the economic activity of businesses. These advocates claim that without government regulation in the marketplace, businesses will take advantage of the consumer by forcing them to buy inferior products and services while charging them whatever the market will bear. In reality this is far from the truth, yet government intrusion in the markets is continually on the rise and it is a force that the new entrepreneurs will have to contend with in their quest to survive as a business.

It's also very important for entrepreneurs to realize that in any market economy, unhampered by government or not, the consumer always has the

upper hand in the buying and selling negotiation. Businesses should know this without a shadow of a doubt. The consumer, by their buying or *not* buying, determines the future of any business. There is a reason for the age-old adage that says, “*the customer is always right*.” In effect, the customers are the real bosses in the market economy and by their buying habits force businesses to obey their orders.

The point being that in order to be profitable businesses must never lose sight of their customer's wishes and manage their affairs in such a way that will satisfy them.

These few business traits that I have mentioned thus far are some of the more intrinsic, but there is still a lot more to consider in growing a business. In addition to having to anticipate the needs of the fickle consumer, constantly competing with other businesses in the marketplace, and dealing with excessive government regulations, there is still business *taxation and financing* that must be dealt with. These last two in particular also pose significant problems for a young business startup, as we shall see.

## BUSINESS STRUCTURES

If you are going to start a business you must understand up front that “Uncle Sam” is going to be your partner in the venture. This is why businesses are sometimes referred to as *taxing entities* and when entrepreneurs start out they have different accounting structures to choose from for the new enterprise. The main U.S. business structures as of 2018 are the *Sole Proprietorship*, *Partnerships*, *S-Corporations*, *C-Corporations*, and the *Limited Liability Company (LLC)*. The Limited Liability Company (LLC) and the similar PLLC (which is specially designed for professional services) are the newest business structures that only became available in all states in 1996.<sup>6</sup>

Selecting the appropriate business structure for a new enterprise is a very important decision with two main considerations—the *tax rate* and the *creditor liability exposure*. Most newly formed businesses pay the most attention to the taxing rate aspect of

the business structure and not enough attention to the creditor liability exposure. This is evident in the latest SBA national statistics (2016)<sup>7</sup>, which show that 86.4% of small businesses are sole proprietorships, or as the name implies, a business owned and operated by a single natural person. In a sole proprietorship the tax passes directly to the individual at the individual's tax rate, but there is no legal separation between the individual and the liabilities of the business. Consequently, a lawsuit from an angry creditor of the business can potentially shut down the entire company and seize the individual's personal assets. This may be one explanation for the high mortality rate of so many business startups since the majority of them are sole-proprietorships, hence immensely vulnerable.

A partnership is a business relationship between two or more individuals who come together to operate a business. Each partner contributes assets (or startup capital) and share in the profits and losses of the business, which are recorded on each partner's individual tax returns. Partnerships are also tax flow-through business entities.

Incorporating a business releases its owners from financial responsibility of business obligations. Depending on the nature of the business this may ultimately be the most important factor in deciding what business structure to use. But tax considerations require extra scrutiny when selecting either an S-Corporation or a C-Corporation. Once again, the nature of the business or the business's primary strategy may be the deciding factor on which business structure to select.

For example, businesses that have intentions on selling shares of stock as part of their business plan will generally select a C- corporation. This is why you find that most large businesses, which engage heavily in selling stock shares, are C-corporations.

The popularity of the LLC in recent years came about from the fact that this business structure combines the pass-through taxation benefits of a sole-proprietorship or a partnership with the limited-liability benefits of a corporation. In effect the LLC

is a hybrid business structure.

Nevertheless, individuals considering a startup should investigate all aspects of each of these business structures in consultations with professionals that can properly weigh the selection of the business structure in relationship to the primary strategy of the business. Some startups will grow into very large complex companies very quickly and changing business structures in midstream can be difficult and expensive, so it pays to start off on the right foot from the beginning.

## BUSINESS SIZE AND OTHER IMPORTANT DEMOGRAPHICS

We come now to one of the most fascinating aspects of businesses and that is the matter of business size. It's important because it provides perspective. When we think of a startup we naturally think in terms of a very small business consisting of one or a few people. After all, it's a startup. But we are taken aback when we first learn that there are 28.8 million businesses in the United States of which 23 million of them are owned and operated by only one individual with no employees. These are the statistics put out by the *Office of Advocacy of the SBA* as of June 2016.<sup>8</sup> In fact; this government agency goes on to define a small business as any business with less than 500 employees, but at least one. This represents 5.8 million small businesses.

According to the SBA numbers there were only large businesses with more than 500 employees. *The United States Census Bureau*<sup>9</sup> also provides statistics that vary slightly from those of the SBA, but not by much. They actually go further and breakdown the number of employees of these 18,600 larger companies and show that there are only 981 businesses in the United States that have 10,000 employees or more. Other sources list *Walmart* as the largest employer in the US with 2.3 million employees followed by *Amazon* with 566,000. Even so, out of the total 118 million employees currently working in the US, 57 million (or 48%) are employed by small private businesses. This is an impressive number we should not forget.



One of the saddest statistics is the one that shows that startups by the millennial age group (individuals age 15-34) have been steadily declining since 1990. In other words entrepreneurship is lower among millennials than among prior generations with predictions that it will remain relatively low for decades into the future, according to a recent *U.S. Small Business Administration Advocacy Research*. In effect millennial entrepreneurs are prominently missing and they represent a population size greater than baby boomers. The trend is sad because new businesses are the creators of both jobs and innovation (new ideas), which translates into economic growth for the nation. Although entrepreneurship has been rare among millennials nevertheless some, like Mark Zuckerberg, have achieved recent remarkable success. For others, success may be just around the corner and that may help change future attitudes.

## CONCLUSION

Small businesses are the core of the U.S. economy, yet in examining what entrepreneurs must go through in order bring their business ideas to fruition it's a wonder the mortality rate is not higher than it is. The task is daunting and filled with all manner of risks and uncertainties.

This article, by merely exposing some of a business's fundamental elements, introduces non-business owners or those possibly considering starting up a business to a brief summary of some of the key areas and pressure points that can spell success or failure for a brand new business startup.

Besides the management skills and talent required to guide a business from inception to maturity, there is a maze of legal structures and government bureaucracy that can make success nearly impossible. Federal policy, especially when it fails to consider the smallness of initial startups, can easily overburden small businesses with so much excessive regulation that just the mere cost of compliance harms the viability of small businesses before they have a chance to get off the ground. This of course can have a negative influence on the attractiveness

of starting a new business for others that are possibly considering it. Next month in **Part II** of this article we will examine *Financing*. Financing is essential for business survival and growth and in this next section we will examine all of the financing options available to businesses as well as creative *alternatives* that will make this story have a happier ending, plus encourage many of you, our readers, to launch out and become entrepreneurs—champions of the free enterprise system.

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## NOISE!

R. Nelson Nash

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*NOISE: a loud or unpleasant sound*

*Full Definition of NOISE by Merriam-Webster*

*1: loud, confused, or senseless shouting or outcry*

*2a: sound; especially: one that lacks agreeable musical quality or is noticeably unpleasant*

*b: any sound that is undesired or interferes with one's hearing of something*

*c: an unwanted signal or a disturbance (as static or a variation of voltage) in an electronic device or instrument (as radio or television); broadly: a disturbance interfering with the operation of a usually mechanical device or system.*

Have you ever noticed that we all are completely surrounded with noise in our daily lives? Even as I write these words I can easily hear the noise my computer is making and there is the noise that the keyboard makes each time a key is stroked. There is the noise that our air conditioning system makes. And, there is also the noise from the garbage truck on the street just outside my window! Thankfully, the truck will be gone shortly.

In my younger days I flew for over 28 years as a pilot for the Alabama Army National Guard. Fixed wing, piston engine, propeller driven planes, “low and slow” kind of aircraft. They make a lot of noise! After completing a mission that lasted for several hours and then getting into my car for the drive home, it was always so apparent how quiet my car was in contrast to the experience in the airplane just a short time earlier. I could hardly hear the noise my car was making. Yet, by the time I got home, maybe 20 minutes later, I now was conscious of the noise of the car.

Maybe some of you have been subject to a hearing test where they put you into a booth where you are insulated from sound. But, have you ever experienced total silence in the outdoor world? My

wife and I have been to Sedona, AZ many times. On one occasion we rented a car and toured “the boonies” – away from all civilization. We parked the car and climbed one of those buttes. It was a beautiful day. Not even noise from wind. No birds chirping. No insect noise. No noise of any kind! In contrast with the kind of noise that usually surrounds us -- it was kind of weird! When you experience this sort of thing you know immediately that something is different. But, highly enjoyable! The very thought of it makes me want to go back there!

For my birthday present several years ago, my wife gave me a Bose Noise Cancelling Headset since I travel a lot on airplanes. Have you ever experienced one of those things? It is wonderful. Just put on the headset and turn on the switch and it's a whole new world. You can still hear announcements from the flight attendants and pilots, and even muffled voices of those people around you. But the usual airplane noise is practically gone! Nice! It makes reading a good book a lot easier, especially when you put foam earplugs in your ears first and then put on the noise-cancelling headset.

But, you may have also noticed, there is a huge amount of other types of noise that surrounds us. For instance, go to a drug store or other such emporium that sells magazines. Can you believe the volume of nonsense that is contained on those shelves? Magazines that tell you what Charlie Sheen is doing today. What are the Kardashians up to now? What has Lindsay Lohan been arrested for this week? All kinds of essential information like that! The list could go on for several pages. Does anyone really care about all this sort of stuff? When I'm traveling on airplanes I am astounded at what I see people reading. I wonder what those people think about.

Maybe it's because I have been involved in the financial world for over 50 years that it is so apparent to me that the greatest noise to which we are all subjected is coming from the financial world. It is filled with utter nonsense that is, for the most part, absolutely worthless.

If you would like to challenge my assertion on this matter, then I encourage you to read a few books that will support my position. Try reading *Extraordinary Popular Delusions and The Madness of Crowds* by Charles MacKay. Read *The Failure of The New Economics* by Henry Hazlitt. For an entertaining (and accurate) perspective I suggest *Eat The Rich* by P.J. O'Rourke. In fact, just read anything by P.J. He is funny! And, oh, yes, be sure and read *Myths, Lies, and Downright Stupidity: Get Out The Shovel -- Why Everything You Know Is Wrong* by John Stossel.

If these four books don't do the job for you, then take a look at the [recommended reading list](#) on our website. You will find it under the Resources tab.

Another example will help in getting my point established. I will never forget the first time I heard music on a high-fidelity record player. I realize that you may be one of the "millennial generation" or maybe, even a generation a little older and that you don't know what a record player was. Since this fact is not really a part of this paper, I suggest you just go ask your grand-father about it.

I could not believe my ears! How fantastic to hear such clarity! I forget the name of the maker of the instrument. Anyway, I could not wait to get a cabinet model by Magnavox. Wow! Joy supreme! But, after several months of listening to recordings on this machine – would you believe it – I could hear the noise the turntable was making!!

My conclusion was that I should have spent about four times more money and bought "a real professional hi-fi set." I had a close friend who had one of those machines. So, I made a lot of visits with him to listen to his recordings. Again – would you believe it – after a while I could hear the noise his Garrard turntable was making, too!! With more exposure, our awareness becomes more developed.

Having been a student of the Austrian school of economic thought for 58 years plus over 50 of involvement with the financial world I believe I have developed, to some degree, the ability to recognize financial noise.

In order to cope with this "noise filled financial world" what we all need is the equivalent of a "financial noise cancelling headset." You will have to develop your own. No one can do it for you. You will have to learn to recognize financial nonsense when you see it and don't spend any of your valuable time examining it because it is wasted effort. But, you can get expert help from an ***Authorized Practitioner of The Infinite Banking Concept*** as taught by the Nelson Nash Institute. To understand -- and practice -- this concept requires a coach to get started and to guide you for many years into the future until you have developed the ability to tune out all the financial noise that you encounter. This is not to imply that the concept is complicated. To the contrary, it is very simple and practical. It is just different from all the financial noise that surrounds us.

The Nelson Nash Institute is revealing the power of a fundamental financial instrument -- one that has been around for a couple of hundred years -- that has been obscured by the financial noise that dominates our current world. But if you can learn to tune out the noise and listen to the truth, it can change your life!

## Take control of your financial world by Becoming Your Own Banker

Find a Practitioner Near You

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

### New Members

- Dan McMullen, Whitby, Ontario
- Austin Garner, Yukon, Oklahoma
- Louis Heroux, Laval, Quebec
- Taran Sousa, Leduc, Alberta

### Membership Renewals

- David White, Spearfish, South Dakota
- Josh Steinfeld, Lodi, California
- Nicole Gardner, Alvin, Texas
- Brian Moody, Irwin, Pennsylvania
- Jose Salloum, Montreal, Quebec
- Harper Jones, Knoxville, Tennessee
- John Blalock, Birmingham, Alabama
- Michael Salloum, Laval, Quebec
- Ashley Lalonde, Calgary, Alberta
- Donovan Coates, Calgary, Alberta
- Drew White, Hurst, Texas
- Patrick Johnson, McMinnville, Oregon
- Patrick Eddins, Kirkwood (St. Louis), Missouri

Before you look for a practitioner, we suggest listening to the following two episodes of *The Lara Murphy Report*.

***How-To Guide for Starting IBC, Part 1*** How to begin your study of Infinite Banking, including finding an Authorized Practitioner.

***How-To Guide for Starting IBC, Part 2*** How to prepare for your first meeting with an Infinite Banking Authorized Practitioner.

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***You can view the entire practitioner listing on our website using the Practitioner Finder.***

*IBC Practitioner's* have completed the *IBC Practitioner's Program* and have passed the program exam to ensure that they possess a solid foundation in the theory and implementation of IBC, as well as an understanding of Austrian economics and its unique insights into our monetary and banking institutions.

The *IBC Practitioner* has a broad base of knowledge to ensure a minimal level of competency in all of the areas a financial professional needs, in order to adequately discuss IBC with his or her clients.





## THE FOUNDATIONS OF IBC

This online **video series** for the general public provides a comprehensive introduction to the *Infinite Banking Concept*.

The first four modules are free, you can view them here:

[infinitebanking.org/foundations](https://infinitebanking.org/foundations)

The remaining eight modules are subscription-based, costing \$49.95 for all eight.

*Or contact an **Authorized IBC Practitioner** and ask for a coupon code that will enable you to watch all twelve modules FREE.*

Module 1: Introduction to the Nelson Nash Institute

Module 2: What the Infinite Banking Concept Is

Module 3, Part 1: How IBC Works

Module 3, Part 2: Policy Loans & The Nature of Collateral

Module 3, Part 3: How to Read a Policy Illustration

Module 4: Why Nelson Calls It The Infinite Banking Concept

Module 5: The Life Insurance Industry

Module 6: Why Not Buy Term and Invest the Difference?

Module 7: Using IBC to Pass Wealth to Future Generations

Module 8: The MEC Rule and Policy Design

Module 9: Does IBC Work for Older People?

Module 10, Part 1: IBC for the Business Owner

Module 10, Part 2: IBC for the Business Owner

Module 11, Part 1: Using Your IBC Policy: Premiums, Dividends, and Policy Loans

Module 11, Part 2: Using Your IBC Policy: Premiums, Dividends, and Policy Loans

Module 12: IBC as a Way of Life

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