

BANKNOTES

The Nelson Nash Institute Monthly Newsletter

March 2026

The Rise and Fall of a Citizen: Part II

By L. Carlos Lara

“In a country such as ours, with near 300 million inhabitants, it is important to realize that not all people produce during their entire lifetime. For example, infants certainly do not produce. The elderly or otherwise incapacitated, do not produce. We can say that the unemployed, while they remain unemployed, are not producers. And then there is that large segment of society which depends entirely on government support. These people are obviously not producers either. But, although we are not all producers, we are all consumers. No one knows this better than the entrepreneur.

Entrepreneurs are those unique individuals who are constantly assessing human wants and formulating ideas to meet those wants. They pay special attention to the most urgent wants and determine the best means and uses of scarce resources to satisfy them. They are unique people in that their unusual personality, their creativity, their use of imagination is not learned nor can it be taught, but is rather inherently possessed and cultivated. Their judgment of the facts of an uncertain future is a cut above the rest of society. They act on their strong opinions of what could be, many times against great odds and risk! They are always on the alert for a means of making profit in areas where they can earn more than the going rate of interest. Our world’s superior standard of living is a direct result of what these entrepreneurs have set in motion. These men and women are the true stimulus to an economy. In fact, they are the economy’s lifeblood.

The term “entrepreneur” is derived from the French word, which means “a person who organizes and manages a business undertaking, assuming the risk for the sake of profit.” More specifically, his role is that of the individual who brings together the various means of production to their final useful end. In essence, he takes the elements of production, which are land, labor and capital and ‘mixes’ them in such a way that a product or service results. The entrepreneur can be a great industrialist or he can be a farmer

IN THIS MONTH’S ISSUE:

- **The Rise and Fall of a Citizen: Part II**



**NELSON NASH
INSTITUTE**

Home of the Infinite Banking Concept™

2957 Old Rocky Ridge Road
Birmingham, Alabama 35243

BankNotes archives:
infinitebanking.org/banknotes

Founder- R. Nelson Nash

Editor - David Stearns
david@infinitebanking.org

operating on a parcel of land.

One thing is certain: producing a product or service is not for the faint of heart. The endeavor is filled with uncertainty, beginning first with the simple fact that the product or service may not sell! not for everyone in society. The idea of having to gauge wants and needs from infinite human desires is all calculated guesswork! The quantities, categories, styles, size, weight—an endless variety of considerations like these, can easily be overestimated. Additionally, undertaking production may be on borrowed money or credit and interest rates may rise. What about competition? All of these factors are uncertainties. Obviously, one prominent characteristic of the entrepreneur is that he is a risk-taker. Without question, he is an individual who operates one step away from total failure, a lifestyle. To the outsider, the entrepreneur appears to be a person of great independence with power to wield in an organization. In reality, the entrepreneur is at all times keenly aware of the perilous risks he must take in making his decisions.” (1.)

The previous selection, taken from our book, *How Privatized Banking Really Works*, is a generic description of the life of an entrepreneur. What follows is an account of my experiences on a personal level. In last month's issue of BankNotes, I wrote about my rise as a citizen entrepreneur. In this article (Part 2), I describe the fall.

When you are making a lot of money, there are plenty of people able and ready to show you how to invest it. Although I was not particularly interested in investments outside of my own business, I was concerned about sheltering taxes. In the mid to late 70s, the financial services industry began marketing real estate limited liability companies with special tax incentives. I moved in that direction not only because of real estate's historical appreciation, but also because I realized that passive real estate income losses could be used to offset income. This was attractive to me, and I foresaw a great deal more income yet to be made through my growing business. Although I was not

yet 30 years old, I was confident about my financial decisions. Besides, I had my own team of advisors, which included lawyers, accountants and financial representatives. My greatest financial advisor was my friendly banker, or so I thought. The truth is, none of them had any idea what lay ahead. They were certainly specialists in their fields, but none had an accurate understanding of how an economy really works.

It's difficult for some of us to imagine a country with only a marginal interest in the stock market, an environment without credit cards or home equity lines of credit. But such was the world of the 70s; none of these things had yet come on the scene. Most business people used a Diner's Club or an American Express Card to pay for business expenses. Air travel cards were available from the airlines and were frequently used as a special credit card to pay for air travel. There was revolving credit, which was made available by most retail stores. Also, layaway plans were quite frequently used, whereby the store would set aside the item for the customer and the customer would make installment payments until it was paid in full. Once it was paid for, the customer would own it and be able to take it home. Seems somewhat antiquated, but for the most part, Americans were still very conservative consumers.

It was also a world without discounted sales, except for two clearance events a year. These were usually conducted in January after Christmas and then in July after the spring and summer season. All stores throughout the country followed this same selling pattern, so consumers would all shop for bargains only at these two times of the year. Everything throughout the country sold at full retail prices until these two seasonal events, when prices were actually cut in order to make room for next season's new merchandise. Strange as it may seem, we were all conditioned to shop in this manner. Of course, this was all possible because there were no discounters in the marketplace. No WalMarts, Costcos, or any other kind of discount merchandisers. Discount competition was virtually nonexistent. This environment is a partial explanation of my financial success. Since I was closing down

and liquidating entire operations from coast to coast and offering huge discounts on merchandise in order to liquidate assets and raise cash, consumers were buying full-price merchandise at a fraction of the cost everywhere I ran a liquidation sale. I became the darling of merchandise creditors and banks who were hoping to recover their losses from these special events. The consumers who purchased these great bargains were very happy to receive them.

The political scene during this time was quite disturbing for most Americans. This was the era of the Watergate scandal that eventually culminated in Nixon's departure from office in disgrace. Never again would I ever see Washington politicians as virtuous statesmen. President Gerald Ford, who replaced Nixon and completed his term in office, was defeated by Jimmy Carter in the next elections, and he took office in 1977. It was during his administration that we had our first wakeup call about our dependence on foreign oil. For a time, Americans had to wait in long lines at the gasoline pumps, hoping to get gasoline before stations completely ran out of their daily ration. (Of course, it wasn't foreigners, but our own government's price controls, that made the "daily ration" necessary!) At the same time General Motors, Chrysler and Ford began to feel the impact of foreign imports on their bottom lines and massive layoffs began to spread throughout the automobile manufacturing parts of the country.

As we neared the eighties, real estate developments were soaring, fueled in part by the attractive real estate tax shelter investments and low interest rates. The Savings and Loans took center stage as the primary mortgage lenders for all of this real estate development. Once their deposits were made insurable by the FDIC in much the same way as banks, S & L's became the mortgage lenders of choice. They, as well as the taxpayers, paid dearly for it later.

The financial services industry was growing and so was the array of financial products. It was at this time that we also began to see the advent of the 401(K), 403(B), and other government-sponsored retirement programs, which have their underlying assets invested in the

stock market. Since this money was pulled directly from employees' paychecks, the small investor became the catalyst for the emergence of the mutual fund and the rise of the stock market. But all through the 70s, monetary credit expansion continued at full throttle and what the mainstream media refers to as inflation had spiked to 11%. The setup for the next bust was in place.

"Inflation and credit expansion always precipitates business maladjustments and malinvestments that must later be liquidated. The expansion artificially reduces and thus falsifies interest rates, and thereby misguides businessmen in their investment decisions. In the belief that declining rates indicates growing supplies of capital savings, they embark upon new production projects. The creation of money gives rise to an economic boom. It causes prices to rise, especially prices of capital goods used for business expansion. But these prices constitute business costs. They soar until business is no longer profitable, at which time the decline begins. In order to prolong the boom, the monetary authorities may continue to inject new money until finally frightened by the prospect of a runaway inflation. The boom that was built on the quicksand of inflation then comes to a sudden end." (2.)

My children, three by now, were all in private schools and entering their early teen years. I had purchased an impressive building lot and had started construction of our dream home. Things could not have been better financially, and my business continued to expand into other industries. The contractions in the retail sector, which had begun in the 60s with the small specialty store chains, now spread to department stores and, soon thereafter, to hardware businesses and even bookstore chains. Taking advantage of the low interest rates, I began to finance inventories for businesses as part of my new work out strategies, utilizing bank letters of credit. The rate on these was a mere 4%, but only if they were actually cashed. For example, I could purchase \$1 million in inventory by simply giving out 90-day letters of credit. If I paid back the million in 90 days, which I always did, no debt or interest would be owed. This was an efficient way to do business and

allowed me a great deal of credit flexibility.

When Federal Reserve Chairman Volker increased interest rates in 1980, it created a tremendous contraction through all sectors of the economy. The tremor was felt everywhere and businesses soon slowed to a crawl. Companies stopped hiring and the massive layoffs that swept the country made the unemployment rate reach 10%. When mortgage rates shot up to 15%, the real estate market crashed to a level worse than during the Great Depression. Does all this sound familiar?

As business slowed, my outstanding letters of credit were starting to get cashed, but the interest rate was no longer 4%. It too climbed to 10% then 18%, and when it hit 23%, I knew then it was over, and I was \$3.5 million in debt.

I immediately went into liquidation mode and began trying to dispose of assets as quickly as possible in order to pay off hundreds of creditors, but in the economic environment of the time, it became excruciatingly difficult. By 1985, I had managed to pay off everyone except my bank, which I still owed

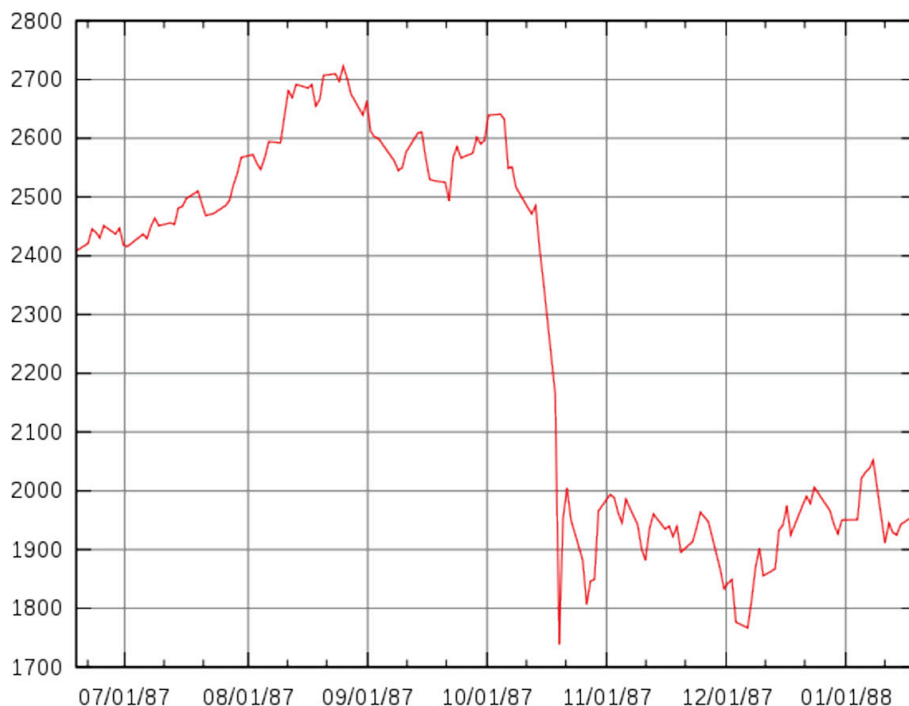
\$1 million. By having only the one creditor, I was able to avoid bankruptcy. Now the bank's only hope for payment of their loan was for me to recover financially. But in 1986, another climactic event occurred—the government decided to change the tax laws! The Tax Reform Act of 1986, among other things, eliminated all the special incentives that made tax shelters attractive. Suddenly, many individuals found themselves in dire straits owing the IRS taxes on what became known as phantom income generated by these real estate tax shelters. My own IRS audit culminated in a \$700,000 tax liability, which served to only add salt to my wounds.

At this point, I was down to liquidating my personal assets, but then on October 19, 1987, yet another cataclysmic event occurred— Black Monday! The stock market drops 500 points in one day and scares the living daylights out of everyone. An event like this had not happened since the stock market crash of the Great Depression. There was panic everywhere.

Eventually, I had to put my own house on the market. At the time, it was one of five of the most expensive houses for sale in Nashville, but no homes were selling.

Fortunately, a couple who had just received a large inheritance bought our home and paid top dollar for it. With those proceeds, I paid the bank all I could in return for the release of my wife's guarantee on the note. I had decreased my debts to \$500,000 owed to the bank and \$700,000 to the IRS. I was the remaining sole guarantor on all of it. My business, all of my assets and my income were now gone. It was the darkest day of my life and a very sad time for all of my family. The year was 1987, and I was 40 years old. All I can say now is thank goodness that is all in the past.

Dow Jones (1987-06-19 through 1988-01-19)



Although that was 39 years ago, an experience like this is never forgotten, and recovery is dreadfully slow. The toll that such losses took on me, my marriage, and my family are the realities of life in such painful circumstances, too personal to share, but nonetheless real. The scars will always be there. The good news is that I did recover. My family recovered. The remaining debt was eventually eradicated. How that actually happened is an amazing story in itself, but for another time. Although my business flourished and expanded once more, the entire experience had one other great benefit—it strengthened my faith in God. It also set me on a quest to understand how the economy really works, which eventually led me to Austrian economics. There have been several boom and bust cycles in our economy over the last 39 years. I have not only sailed through them unscathed, but I actually profited from them. Today, it is my sincere great pleasure to tell my story and to teach Austrian economics to others, knowing that it is the one remaining hope for our country and the future of human liberty.

Bibliography

1. *How Privatized Banking Really Works*, Copyright 2010, by L. Carlos Lara and Robert P. Murphy, 1st Edition, printed in the United States by Sheridan Books, Inc., Ann Arbor, Michigan. Page 67-69
2. *How Privatized Banking Really Works*, Page 73, Quote from Hans Sennholz, “The Great Depression,” reprinted from a Freeman article from October 1969



INFINITE BANKING INITIATIVE

A PODCAST FROM THE



NELSON
NASH
INSTITUTE

With over **60 episodes** now streaming, there's plenty to explore!
Watch or **listen** today—just hit subscribe on your favorite platform below.



DID YOU KNOW?

[You can view the entire practitioner listing on our website using the Practitioner Finder.](#)

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

[Find a Practitioner Near You](#)

IBC Practitioners 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. 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.

The financial professionals listed below joined or renewed their membership as part of the *Authorized Infinite Banking Concepts Practitioners* team in January & February.

MEMBERSHIP RENEWALS

- Michael Baker, Medicine Hat, Alberta
- Timothy Boyle, Portsmouth, New Hampshire
- Michael Clanin, CEDAR RAPIDS, Iowa
- Scott Cordier, Carrying Place, Ontario
- Justin Dormer, Lethbridge, Alberta
- Kevin Dottenwhy, Wausau, Wisconsin
- Brian Fleming, Hartford, Wisconsin
- David Forbes, Punta Gorda, Florida
- Michael Hession, Cranston, Rhode Island
- Robert Hyrkas, Eden Prairie, Minnesota
- Mark Knight, Knoxville, Tennessee
- Eric Kouvolo, Bellingham, Washington
- David Moore, Plainfield, Indiana
- Tom Neeser, South Bend, Indiana
- Kaye Lynn Peterson, Rancho Cordova, California
- David Rockett, Monroe, Louisiana
- Eric Roy, Gatineau, Quebec
- Kyle Shenk, Highlands, New Jersey
- Howard Silvermintz, Atlanta, Georgia
- Lawrence Sin, South Pasadena, California
- Raymond Ward, Fairfield, Iowa
- Brenda Wilkinson, Brantford, Ontario

NEW MEMBERS

- Michael Duryea, Emporia, Kansas
- Richard Engel, Englewood, New Jersey
- Michael Kwong, Katy, Texas
- Brett Newell, Newcastle, Ontario
- Glenn Yaney, Plant City, Florida

THE FOUNDATIONS OF IBC

The Foundations of IBC is an online **video series** for the general public that provides a comprehensive introduction to the *Infinite Banking Concept*.

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