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Then The Power Went Out

Last Saturday at 2:47 in the afternoon my email inbox chimed with a “Fire Weather Watch” to be in effect from 11 AM until 11 PM Monday. What that means is that high winds are expected which can blow down trees and if those trees hit power lines they can start fires that really move across the countryside. Interestingly just two years ago on that very day, a similar storm caused three major fires in Eastern Washington. In total I received six messages from that weather service and two from another predicting the storm, until the power went out at about 3:30 Monday afternoon. It was restored at about 8:40 Tuesday morning for a total of seventeen hours and change.

There is not much you can do about the weather, you can take precautions like making sure things that might blow away – can’t, and anything in the way of a falling tree – isn’t, but for the most part you just have to let it happen. The same is not true for human activities and

in context, the economic weather. If you look at such companies as Apple, Microsoft, Cisco, Dell, Hewitt Packard, and a whole host of others, they have been around for approximately a generation. But what no one seems to notice is, unlike humans, these enterprises really don’t have any kids.

The statistics show that the Great Recession has cost the American economy somewhere between eight and nine million jobs. Job creation in recent months has basically hovered around an average of those required to keep even with the growth of the population. Everywhere from the president on down to the neighbors discussing the day’s activities, they are all talking about there is not enough or no work. Those with jobs are very thankful, and those without work are more and more often giving up.

A major question has been where was all the professional forecasting that this was going to happen, but more importantly now



that the power has gone out of job creation, what are we going to do about it?

So far we hear a lot of talk, and any actions that have been taken are really counterproductive. We are well past seventeen months without any job creation. Listening to the vice president he seems to be saying seventeen years is a reasonable expectation for job return.

A week ago the email chimed with a study from the Kauffman Foundation that stated: "Job Growth in the U.S. Driven Entirely by Startups." That is not news to me, but here is a brief summary of the findings: "New firms add an average of 3 million jobs in their first year, while older companies lose 1 million jobs annually." All of this comes from analyzing data from Business Dynamics Statistics, a U. S. Government dataset compiled by the U.S. Census Bureau, from data going back to 1977.

What this means is if we continue on the present course, the reality of a seventeen year period until we get back to 2007-2008 employment levels is probably realistic. Furthermore this means that the president's line about increasing exports to spur the economy is a farce hidden in a lie. The economic stimulus was an absolute waste of money. But it also shows that as we understand it, capitalism is a dying dinosaur, as is the federal bureaucracy.

In late 2008 and early 2009 when I read Amity Shlaes "The Forgotten Man" I really couldn't understand how the Great Depression could last for essentially a decade. Sure President Roosevelt tried a lot of different government related things, many of which were counter productive, but really, wouldn't someone along the way have seen the wisdom in just leaving everything alone? I guess what I really couldn't get my mind around was, "They just kept tinkering with things to the point that nothing had time to work."

Bringing that to the present day, there is really no reason why anyone should attempt to start a major corporation in today's economic climate of the United States. Simply, the odds of becoming even a billionaire are not worth the risk. The reason is you simply can not forecast ANYTHING much beyond a week from Tuesday. Notice the emphasis on anything!

Back when I began this adventure as a consultant in the 1980's, one of my talking points was that the Americans were the entrepreneurs of the world, the Germans were the engineers, and the Japanese were the manufacturers.

Today American entrepreneurs are essentially an extinct species, the Germans are still pretty good at engineering, but no one can afford to pay for it, and the Japanese still know how to put things together, but again former Japanese quality isn't worth the price. Now the Chinese can make virtually everything, because they don't have any restrictions on anything, and pay their people nothing, but that doesn't make any difference as long as our life's goal is to possess a lot of junk, and if it only lasts a season, it was only China junk to begin with.

Let's see if we can begin developing some economic theory that might work in the real world and not some mathematical model in olden days you could write on a blackboard, but today use in a PowerPoint presentation.

First a few primary assumptions: Wealth and money are not always the same. Wealth can be many times converted into money and the other way around. But only the function of human enterprise working in unity with human communities can create wealth. Money can be created solely out of the wishful thinking of man, generally in and through the fiat of governance.

That means that government deficit spending, as a means of stimulating the economy will only work when it in some form is used to create wealth. Simply put, wealth is created after all the expenses are paid. The so called Keynesian multiplier, used to create consumer demand is in reality only a method of marginal money recycling, because its prime emphasis leads to randomness or entropy, rather than the synergistic mechanism of enterprise development.

Contrary to what you hear from the Obama Administration, Keynes' "General Theory of Employment, Interest and Money" will not create jobs because it has no direct linkage to creation of wealth. Any limited wealth created through deficit spending that moves slowly upward ends up with the creator of the goods and services. Since the United States makes very little of its consumer demand anymore, deficits in the aggregate end up being an exporter of national wealth.

Tax cuts are a slightly different scenario, they really don't trickle down, because in a world in which there is no incentive to invest in the future, that saved money is just accumulated, or banked. For tax cuts to work they must be accompanied with cuts in government spending, because without the cuts in government bureaucratic inertia, the tax cuts basically consume any investment wealth producing potential. However just like Keynes, even focused tax cuts or tax credits really focus upon entropy and consumption rather than the creation of new wealth.

Going back to the Kauffman study, nothing in modern economic theory focuses on the true creation of both wealth and jobs. The only alternative is startup companies. Much of the reason for that is the reality that very few politicians or academics have ever taken the risk of attempting to develop a going enterprise ex nihilo. So let us lay out a few realities of true job producing startups.

At its inception a startup must be a consumer of wealth. Just how much wealth the enterprise will consume before it becomes a viable enterprise is dependent on the business plan. That wealth needs to be committed as true equity not just involved. Startups are like a wealth creating breakfast; they require committed ham not just involved chicken eggs. That means capital is risked as equity, not borrowed with a predetermined repayment schedule.

A true wealth and job producing enterprise does not pay taxes because the wealth and any positive cash flow is reinvested in personnel and infrastructure. In blunt terms, about all human governance can do is to get in the way at the level of job creation and initial wealth creation. So why does government saddle startups with the same regulations as it does with global crony corporations and denies startups access to equity capital in the name of consumer protection? Because in their moronic oxymoronic thinking, they think they are protecting consumers, when in actuality they are forbidding investors.

That same government however doesn't forbid grandma from cashing her social security check at the casino and using it to play the slots. Nor does it stop her from investing in Wall Street, to play with the market making big boys, when major corporate

stocks have had no real gains in over a decade.

So you turn on the news and the government tells us that in their aggregate numbers the recession is over and happy days are just days, weeks, months, or years away, and in the mean time they will take care of your needs, through deficit spending. The president does have it right when he says he did inherit the current economic mess, but he doesn't seem to understand that all of his solutions are worse than the Laissez-Faire attitude of George W. Bush.

Contrary to what you hear from your favorite economic spin doctor, the only historic incentive to create jobs, and proved by the statistics we have quoted here, comes from what we today would call astronomical marginal tax rates and continual political and bureaucratic dinking with everything. That creates what is called flight money, which today is only available to global enterprises, which through leveraged mergers and acquisitions, gobble up others to prop up their inability to create new wealth and new jobs, but hey that is the game we call business as usual.

Is there another way to induce startups other than creation of flight money and moving it to the world's hinterlands?

Really the solution would be to create the startup enterprise hinterlands here in the USA. Historically America became the richest nation in the history of the world through the development of the frontier. Why not create an economic frontier?

For sake of discussion we will call this American enterprise development the State of Effrontery. The basic requirement to be a citizen of Effrontery is to become an insolent and impertinent person and take some of your money and investments out of Wall Street, and other global schemes that focus on manipulating money, and use it to create a new nation, under God, in Effrontery. In Effrontery you have the frontier, the Wild West, created for all who venture and adventure therein. What that means is there are basically no taxes, and no rules, save one.

After a period of time or wealth creation the enterprise has to transition back into the regulated world of boring mediocrity. Transition stages might be total time in Effrontery, like five years; enterprise positive cash flow of maybe three years; or maybe an Effrontery market cap of \$5 million; or maybe some combination of the above.

Sort of like C.S. Lewis' Narnia, what happens in Effrontery stays in Effrontery. In global parlance it is a free trade zone. That means the money you take out of Effrontery is subject to local regular taxes except for the capital gains accrued during the Effrontery period. Those capital gains will be forever tax exempt under current U.S. tax structures.

To move to Effrontery all you need to do is put together an Effrontery plan and keep it updated. That plan basically says what you are planning to do in Effrontery and how you plan to transition out of Effrontery. That Effrontery Plan is basically your prospectus to solicit investors and investors themselves are totally responsible for doing their own due diligence.

For essentially Effrontery state lease details you must pay an initial Effrontery registration fee, say \$25,000; file quarterly reports of say \$1000, and an annual report of say \$5000. That is it. Every state can create its own Effrontery state, but it can only charge for fixed fee standard reports as outlined above. This creates a stable economic climate in which new wealth and jobs can be created with only foreseeable regulatory requirements.

Now the continual response will be, "You can't do that! How about this, that, and the other things?"

The response will be, "Yes we can! The power is still out in the rest of the world! The this, that, and other things, are only important in the outside world, for this is Effrontery you know.

Further Effrontery thoughts next week!