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No Skin In The Game IX

We're finally getting to some of the nuts and bolts, framing and sheet metal to begin to describe what will be required to create an enterprise hydrologic cycle and how to make that liquidity available to would be entrepreneurs.

Entrepreneurs and their dreams, just like nation states, can't grow and produce wealth with only debt, but need some reliable source of equity investment; this reality is contrasted with our current investment paradigm of faux oceans of leveraged debt fiat money that will only churn out real world economic bubbles, which continually burst (unexpectedly???)!

The major question for our world is how to create an economic mechanism, without bubbles that burst, and truly create wealth, to improve the lives of all the earth's inhabitants, while being true stewards of our blessings.

But first an important question: Do you ever take walks in the countryside, the forests, or grasslands, parks or riversides; with

the sole purpose to just look at the seasonal changes that are occurring in nature, not just to walk to get your daily exercise, or as a shortcut to the coffee shop?

I would say that the answer to that question, of all the people who might someday read this creation—is slim to none.

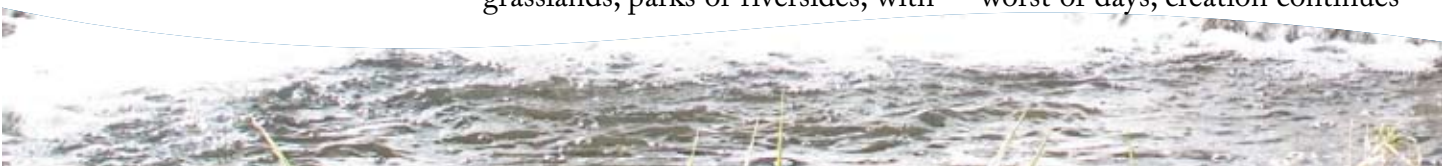
So why should you take such a walk—often?

There are a number of reasons:

First of all, as the annual grasses give way to perennials, as the serviceberry blooms give it up for the chokecherry, the birds and the bees, and the mosquitoes, all impress upon your psyche that this whole creation is way too complex to have happened by random acts of chaos.

That leads you to ponder that all this complexity, of even annual change, must require some type of reoccurring principles to keep it going: natural laws; if you will.

Why then, if even on the worst of days, creation continues



to function generally within life sustaining limits, why can't, don't, won't we use what we can simply observe on those walks, to build models of that creative diversity within our human enterprise structures?

In the early 1980s, that led me to coin the phrase Business Ecology. That is why this article continues to question why so many of our decision paradigms are bimodal, greatly or blissfully ignoring the unintended consequences of everything outside our template, our comfort zone, our blind arrogance and stupidity?

Markets based upon a western concept of what we call capitalism has led to the material prosperity that makes life, in total context, a good life; possible for the vast majority of the humans on this planet.

This discussion generally begins with Adam Smith and his publishing of "The Wealth of Nations" in 1776. Summarizing the broader history of capitalism, Smith and like-minded conservative, nonconformist, Protestant work ethic, minded Scots, basically forced their business model and the accompanying business ethics upon the British, who through a unique form of colonial development rapidly created the global British Empire.

What I haven't read summarized anywhere else, is that this capitalist, world changing enterprise model was, and is, a simple bimodal process. That diverse business blueprint relied upon the expropriation of private property from the wilderness (commons), and developing that property through the application of private capital (money), via compound interest.

For all intents and purposes, the sun never set on the British Empire until we (western culture) ran out of our definition of the world's wilderness commons. In that enlightenment time and vision, you could make a strong case for the American Revolution, based upon the reality that those obnoxious, feisty American colonists, wanted to expropriate their own private property from the North American wilderness and earn that higher compound interest wealth for themselves; furthermore anyone else, especially the Brits, would have to deal with that manifest destiny, and-or American exceptionalism!

The Canadians for their part were much more British, hence not nearly so loathsome and overbearing, but they eventually adopted that North American capitalist model also. The Mexicans however maintained a Spanish colonial model and also were-are limited by the Roman Catholic hierarchical religious design. Which is also why the Scots had to initially force their worldview upon the English and the hierarchical Church of England, but we are wandering off the path; out into the chaos of the weeds.

One of my favorite tales of American expropriate private property, hopefully to make oodles of money over a short time, was the development of the transcontinental railroads. This is also important today, because with diesel fuel prices probably remaining high forever, the ability to ship freight via rail, for not much more than the noise level of road based trucking, will provide rail based opportunities, especially if massive road and air based government taxes, subsidies and incentives are greatly reduced and all forms of transport are again really market driven.

In my business and economics classes I was told that the failure of the railroads was caused by myopic vision, in which they believed that they were in the railroad business and not the transportation business; hence road based vehicle and air transport became dominate modes of transport in North America.

Subsidized markets have always had their role in American expansion, especially when most of the transcontinental railroads were built with government land subsidies by land speculators and not railroad or transportation people. When it came down too reality, laying track was a cheap way to become a land baron, and running a railroad required an altogether different skill set. Hence it should be reasonable to assume there would be massive railroad bankruptcies. That is sort of like, what might happen, if a progressive urban community organizer were to become a president of a nation.

Jim Hill, who built the Great Northern across the northern tier of states, without government subsidies, was really they only transportation-rail manager operating in the west. He was well on his way to turning those failing railroads around, based upon capitalistic principles, when he ran, full speed ahead, into antitrust problems with another progressive urban president a century ago.

With the closing of the colonialism era and the physical frontier, we see the first stresses in capitalism, simply because you could no longer just expropriate wealth from God and nature, at little or no expense, or value added, but rather you had to earn that wealth competing in a universe far different than found in the real world, because now this economic bimodal world was no longer ruled by natural law, Smith's invisible hand, but rather an evolving world of atheistic materialism, where natural definitions of survival of the fittest and competition, were replaced with aggressive behavior, lacking natural laws' tension with common grace and natural beauty.

Outside a worldview functioning well within a moral code of Judeo-Christian values it has been difficult for other cultures to understand capitalism as a broad based system of wealth production. After all, the most literal translation into another foreign culture's language would more than likely be moneyism. From that perspective economic alternatives emerged that claim popular allegiance within nation states. These are really non-capitalistic commercial designs—for the allocation of historic capitalism's resources and private property.

For the emergence of two of those systems, which are still significant players in the current debt-government spending debate in the United States, we must look to the transformation of another empire, without the British moral code. That country is Czarist Russia and its revolutionary collective evolution into the former Soviet Union. There is little in Russian history, under the czars, nor the communist Bolsheviks, nor its current state of affairs, where there are any historic concepts of individual initiative to attempt to achieve anything exceptional—financial or otherwise.

We have put forth names for these two atheistic economic systems that evolved out of the totalitarian run under the czars, into the totalitarian rule under the communists. The communists we have described as Collective Elitists. The other extreme of the political spectrum, described in the atheistic libertarian objectivism philosophy of Ayn Rand, we have christened the Laissez Faire Scoundrels.

A couple interesting points of these highly evolved worldviews. The super strain of E. coli that is now having disastrous effects in Europe and especially Germany is a mutant, that if it were not for our monoculture bimodal desires in agriculture, medicine and economics specifically, they would quickly disappear in the species diversity of wild cultures of E. coli.

That is a Business Ecology, phylogenesis way of saying the Collective Elitist and the Laissez Faire Scoundrels could not exist for long outside the isolated cultures of dictatorships and elitist universities; where big dreams, little implementation and leadership skills, can mutate and thrive for a time. (Seriously I'm not trying to pick on Barack Obama.)

Expanding upon that understanding of a-religious intellectualism. Smith's form a capitalism succeeded well over a century before it was seriously challenged; more like 135 years in the USA, before we began to talk seriously about progressivism, which is really just collective elitism, the lite brew. The heavy brews were liberal Soviet Communism and fascist German National Socialism.

The Soviet Union lasted about 70 years until it collapsed under the weight of its bureaucracy and as spun in conservative America, the military industrial complex and the Reagan revolution. Interestingly, America's progressive lite brew lasted about that same period—but when Alan Greenspan took over at the Federal Reserve there was a radical paradigm shift of monetary policy from progressivism lite brew, to an Ayn Rand laissez faire porter.

This porter brew was built upon capitalism rather than collectivism, as such, it substituted capitalism's original expropriation of the free common wilderness, into an illusion that economic growth could continue forever, outside the natural laws of the universe, if money and credit were readily available, and we would pick markets to which this bimodal principle would apply.

The best example of a true free market that has ever existed in the United States is residential real estate. Objectivism, individual greed, easy money and debt and the shining city on a hill, all without the natural laws of nature and nature's God, was happening before our eyes, at least until 2007, when the bubble burst and repercussions are still slowly unwinding in an endgame.

Capitalism was basically the economic engine that powered the Industrial Age, could it be that the demise of the Soviet Union and the Reagan Revolution were in reality the beginning of the end of the Industrial Age, simply because the fundamentals of capitalism, as described by Adam Smith cannot, or will not properly function within an atheistic system of commerce?

For a little fair and balanced coverage, George W. Bush surely didn't learn that at Yale and Harvard Business School, neither did Alan Greenspan at NYU, or Ben Bernanke at Harvard and MIT.

The United States Constitution is based upon natural law and common grace. These are deistic principles to form a secular nation with a required moral underpinning. As we stated at the beginning, these principles as well as those of developing capitalism were part and parcel of the "pursuit of happiness."

You don't need to be a Christian, a Jew, or even a deist to believe in natural law, everyone believes in gravity, that the sun will rise tomorrow, because the earth rotates on its axis. Why is it so difficult to move beyond a bimodal world of simple cause and effect, especially when we are far down this interstate highway, we have built to the edge of the flat earth our recent economic designs have created?

Today's economic world has now become a frontier of future challenges. Do we want to become accustomed to a material life, where we spend the bulk of our time making payments on things we really have no time to enjoy? Nationally last week it was reported that 28.4 percent of homes have negative equity, and all you contributed, was to believe that contrary to human common sense, that home values would continue to rise faster than inflation forever. Real estate, especially residential real estate, was your only free ticket to high rates of compound interest forever and ever! Amen!

Broadening out our view of capitalism, let us say for all intents and purposes, even though the closing of the frontier eliminated the easy way to obtain wealth, going back to the 1960s, we have been attempting to do a lot of things, isolated in their bimodal purposes, and not at all expecting unintended consequences from the broader reality.

For example, Vietnam War expenditures, coupled with the Great Society, forced Nixon to attempt wage and price controls and close the gold window. By the time we got to Carter we had high inflation and economic stagflation, today we here the same words becoming more and more common.

Next week I will share a list of ten historic personal investments that range from pretty safe to risky. Actually these represent almost an infinite continuum, ranging from bank savings deposits to currency trading. For all intents and purposes if you invested your compound interest (retirement) funds from when you started your real job, until today, when you factor in all the intangibles, seven of those investment returns are probably flat if not negative over that time frame. The other three you considered too risky; so here we are in early June 2011 and our capitalistic society has provided us with: three pretty decent hots, a pretty nice cot, and an opportunity to compete in a zero sum economic game.

Life's a pilgrimage and then you die!

What, you're expecting a shining city on a hill in this life?