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No Skin In The Game VIII

What do sage grouse, sharp tail grouse and human entrepreneurs have in common? All are wild and endangered birds that live in places that most people would consider desolate. More to the point, if the more common human species were to go extinct, populations of the natural birds would slowly rise. If the human entrepreneurs were to become extinct, populations of more common humans would also slowly become extinct.

Hence the ultimate survival of the common human species is directly linked to the survival of a diverse population of wild birds; this is simply the reality of natural law.

So how do we save the human entrepreneur? Through habitat restoration of the wild and desolate lands where they survive and prosper; just as we are saving the true wild birds. One of those habitat restoration tools is the use of participatory collaborative modeling to describe that unusual human habitat; and then begin

to create that habitat within the culture of human enterprise activities.

Since the 1960s the unintended consequences of American leadership in general; in the broadest terms—because there was no general; was to bring about the destruction of the American entrepreneur. The major environmental factors involved were taxes and monetary policy, which changed the historical entrepreneurial landscape of the American dream, from running your own company, into having a job by which you could support an ever increasing debt burden. Most of these factors centered upon housing and energy consumptive toys.

Another significant contributing factor was education. As we leveraged the closing era of the Industrial Age, the division of labor and specialization became more pervasive. A good worker was one who understood his small role in the big scheme of things, if



he or she might realize that there was more to life, more to being human, than just a production robot, or a consumptive animal, the whole evolution of a continuing prosperous material future could be in jeopardy.

However human beings were created to be individually and uniquely creative, they do not evolve into robots or force-fed animals.

Last week we explained that the bimodal nature of the Laffer Curve caused the focus of all investments to shift, from startups and small businesses, to corporate equity stocks and similar sound investments, all risk aversion, and the shift of focus from invention to innovation. Laffer's hypothesis reports that at a certain level higher marginal tax rates become more regressive to government tax revenues. The third dimension to this governmental focus—plays out in unintended consequences for everything else.

Historically, within a progressively taxed society, demand for entrepreneurs is driven by high marginal tax rates. Low marginal tax rates eliminated these true wealth producers. The Laffer curve rewards only those who fit their definition of "work, produce and invest" Notice they are all passive second generation concepts, having nothing to do with any creative process such as inventing "wealth, jobs and opportunity." In other words, the Laffer Curve only works within classical industrial age economics.

What we are seeing in the United States, and the rest of the world is that the macroeconomics of industrial globalism is failing, because it doesn't create wealth, jobs (at consumer wages) and individual human opportunity. That individual human need to express that humanity is the driving force behind the Individual Age, which will be created out of the ashes of the Industrial Age. This age of individual opportunity has really nothing in common with the twentieth century individual, which fits the adapted song lyrics: "I'm so vain, I know this song is about me."

Today what we call economics is really an attempt to make sense of the workings of the Industrial Age. Laffer uses percentages to describe his real assumptions, because it is the method economists use to describe essentially the difference

between apples and oranges within a market economy.

The problem is that apples and oranges are quite different, as common sense dictates. Furthermore the true statistics for each of those markets is quite different and dividing those statistics by 100 to get percentages; loses not only the true statistical variations, but more importantly, might imply some correlations that might or might not be really relevant; and there is no way without going to the original data, to know for sure.

How do we create a natural market economy for startup companies rather than a closed system of centralized leveraged debt consumerism, worked out in collusion of the failure of trickle down economics? What is the economic value of the entrepreneur?

To get to these market solutions; we need a stable environment that removes the advantages of bimodal economic incentives.

The Laffer Curve defines a taxing economic truth. However the real problem is not with the theory, but the application and that leads us to a worldwide problem of fiat money.

The American Federal Reserve has the two-fold task of providing money to create jobs in tension with keeping inflation in check. Notice another bimodal concept with really only one action item: To create money or not to create money; that is the question!

That is all the Federal Reserve can do, it has no mechanism to get that money to where it is needed. For all intents and purposes it gives that money to the U. S. Treasury and the major banks; they in turn, through the fractional reserve system; are supposed to put it to work within the economy, where it will do the most good.

With the death of the entrepreneur, under the reign of Alan Greenspan at the FED, the first and foremost application of this loose money was the busted housing bubble; another bimodal failure in a three dimensional world. Everyone needs a place to live!

People in the cities need a place to live. People in the suburbs need a place to live. People living in the country, they need a place to live also. So let us provide everyone with a place to live, what a great utopian idea, for our sorry world.

When you really stop to think about the true ramifications of the whole process, the real workers,

producers and investors of society need a condo in the city, a house in the suburbs, and a vacation home somewhere where they really would like to live, but the job just won't let that happen.

This really worked so well that it would export. Who wouldn't like to also have a place in Spain and Ireland as well?

The problem stems from the fact: in a true global market for goods and services, someone with a real job, doesn't make enough money to really pay for just one of those houses. If someone is willing to give you a loan for a house you cannot afford; at least you have a chance at the American dream; the substitute dream that the government, the realtors, and the bankers were so successfully marketing.

That bimodal economic bubble has burst. Today the general rule is that much of the housing is priced below replacement cost. That means if it costs \$100 per square foot to new build today and you can buy a nice house for \$50; we need to look elsewhere to find a place for those wise investments for most of the population.

We can put this into a bimodal inflation-deflation economic model and see what happens first; or if they might blow up the model and happen simultaneously.

Today the world is awash in a world ocean of free money, with no place to go other than playing with commodity prices. You get paid either way and if you believe that eventually a world economic recovery is on the way, you will have the capital to make it work, and you really can do well then. If it doesn't, well you have had it better financially than virtually anyone else.

Let us go back to our bimodal paradigm and the third dimension of unintended consequences. Standard classical economics is incapable of providing anything but bimodal choices: supply – demand, price – quantity, inflation – deflation, etc. However true reality lies outside our evolving educational, market, tax and spend process of industrial age economic growth.

In short our world is governed by natural law. Hence what we need to do is to look to natural systems which provide us with a reality that apprehends, rather than is subject to our enlighten

desires to have simple (bimodal) solutions in a real three dimensional world.

We began this week lumping entrepreneurs in with the sage grouse and the sharp tail grouse, all strange, wild birds of the short grass American prairie. The short grass prairie is distinct from forest lands and the tall grass prairie in that it flourishes with much less precipitation than either forests or the tall grass prairie, but has much more rain than a true desert.

At the present time, the future of the United States essentially rests upon restoring the metaphor of the short grass prairie within our economic processes. The seeds of the American entrepreneur still exist in this ground, but what is really needed is some liquidity in the form of monetary capital for those seeds of human invention to sprout and begin to produce well paying jobs and again to produce true wealth, much different than most of the unsustainable prosperity we have all been subjects, over the last fifty years.

First and foremost that requires an enterprise hydrologic cycle that will get the money out of the oceans of non-energetic no-wealth producing debt and into clouds that will fall as rain on the wild country of the strange bird of the entrepreneur.

From the creation of the Federal Reserve and the progressive income tax, the enterprise hydrologic cycle was driven by high marginal tax rates. With the Laffer Curve and the Reagan Revolution that hydrologic cycle ceased to function, rapidly destroying American entrepreneurial incentives. However high marginal tax rates are just a bimodal alternative to the use of the Laffer Curve, and these high tax rates have the unintended consequences to produce the flight money which became the liquidity to build startup entrepreneurial companies.

A more inventive way needs to be created that finds its reality in the three dimensional world of natural law. To begin that process we need to begin to study human behavior in three dimensions through participatory collaborative modeling and other community building endeavors. This includes not just entrepreneurs and would be entrepreneurs, but also the broad community of human investors and normal citizens.

We begin to attempt to look at those required multiple dimensions next week. We seek your help in this endeavor. Communities both natural and humanly natural are all created in a real world beyond our desire

for bimodal solutions to complex problems. The extinction of the human entrepreneur is currently the threat to all future forms of human prosperity.

With the return of the American entrepreneur and a means for recreating and enterprise hydrologic cycle, a true age of American exceptionalism will again become a reality.