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Productivity, Efficiency & Decentralization — Part 1

This is econ 101: when a family is richer, its older workers demand higher wages to stay in work and its younger workers demand higher wages to take a first job. The dynamic contracts available jobs unless offset by an equal or greater rise in productivity.

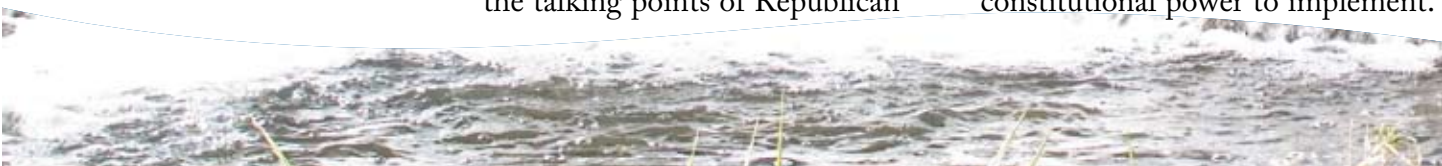
— Edmund Phelps, Financial Times 11 January 2012, 2006 Nobel Laureate in Economics

Late in last week's article I used an archaic word, which at the time I had not noticed. But shortly thereafter, I wondered if any American still understood what I was writing about and even if they had an inkling of its meaning, if they could at all grasp the implications of what that word, if really put into practice, would actually do to the economic muddle we now find ourselves. Dear readers that word we don't hear anywhere anymore is: decentralization.

In my lifetime the United States of America, has become really the federal government unitasker of the world and its current and potential prosperity. There was some talk within the early days of the Tea Party and the talking points of Republican

candidates for the presidency, about states rights; and of course Ron Paul and his libertarian base speak of smaller government and in favor of individual rights, sometimes bordering on anarchy. The word decentralization however is to be found nowhere in anybody's conservative lexicon.

As far as Barack Obama, the liberal-progressive-left and the Democrat Party, it seems that they think there is no problem that more government spending will not cure, particularly if it originates within the federal government unitasker, an then forces the un-sovereign states to fund what the federal government doesn't have the political will or the constitutional power to implement.



Furthermore, like all elitists of their persuasion, they believe that new wealth can be created, as do most Republicans, through tax incentives to crony capitalists, which through mergers and acquisitions, will provide the economic basis for the continuing growth of government programs, including entitlement programs and wealth redistribution.

Late Sunday we posted a short video from CNBC last Friday with Edmund Phelps, whose quotation above, from a recent article in the Financial Times, begins our discussion this week. In that video he speaks of the role of particularly southern European governments who sponsored wealth creation for their citizens through entitlement programs, yet through unintended consequences are linked to both a decline in national productivity as well as a significant cause of the euro crisis.

If you back up and try to put this into context of what is happening in the United States and the world today, what I think he is really saying is something like: Since the end of World War II, the western democracies, using federal government programs financed by deficit spending created the rise of the perceived wealth of their citizens, which increased significantly faster than the true wealth generated through gains in productivity and entrepreneurial new wealth creation.

In stark terms these were and are international, national-state government sponsored Ponzi schemes and now that the original investors are beginning to want to draw on their invested funds, they find that their hard work and diligence has only created — well nothing tangible but IOUs.

We are told the solution to this malfeasance is to be cured through austerity, which is supposed to be paid for by enhanced national economic growth, which is severely impeded because of the need to pay the back previous debt and bad loans. This yield curve historically leads to some mixing of inflation and/or default. This time is not different, and producing smoke and mirrors, and hoping the wizards behind the financial screen will this time pull off a true miracle, perpetuates the illusion and perhaps an eventual normalcy of deviance event.

A true global normalcy of deviance event, by the way, would make the time of the Great Depression

look like general prosperity — so it is typically better if we just ignore that possibility. However if you look at this in the context of economist Joseph Schumpeter's "creative destruction" this is just what is needed to recreate an economic world truly based upon the title of this week's article: productivity, efficiency and decentralization.

In contrast with our current economic world, the natural world, or as we apply it in Business Ecology, is truly based upon those three synergistically linked terms. To illustrate let us look at a simple economic model based upon a river.

The first thing we should note is that our natural river is really an energetically open system. In that I mean that all of the energy that drives the ecosystem ultimately derives its energy from the sun. That includes the hydrologic cycle that causes the rain and snow to fall, as well as the direct "primary productivity" of the plants and other organisms that utilize that solar energy to create natural growth. This fixed carbon, can then be utilized by more advanced organisms in what is called secondary productivity to create the world in which we live and have our being.

To continue to function, this whole river ecosystem and the terrestrial ecosystems that surround it, are this way by design, and over time develop greater efficiency and decentralized complexity. As a Christian that is the way God designed it, including at our human level.

Evolution says nature must work from this decentralized complexity to more centralized simplistic complexity, which was essentially the basis of the progressive elitism that gave us both the collective (government) elitists and the laissez faire (business) scoundrels. Together as cultural antagonists they synergistically destructively evolved the world's current floundering economic Ponzi scheme.

Back to the river. The old Ancient Mariner quotation, water, water everywhere, but not a drop to drink, is also a twenty-first century truth and plays a very distinctive role in our future, because potable or fresh water, not energy, is the most limited resource on the planet. Other than the following brief analogy, this is truly a decentralization problem, meaning the great-big-benevolent-collective isn't going to provide

everyone with drinking water, the scope is just too bodacious and the solutions are just too complex.

In our river system we are working with natural relatively potable water, in our economic model we call it financial liquidity. Natural water provides the basis for life and biological diversity wherever it naturally occurs. Financial liquidity allows for enterprise conditions only where the gods of finance think that it is appropriate and they can control or get a piece of the action, preferably without risk, but at least with some sort of hedged or insurance.

Natural water insulates and provides the mechanism by which solar energetics can provide productivity that creates complex biodiversity. Financial liquidity is created out of bits and bytes of computer code and ceases to exist unless they are stored in some sort of computer energy consumptive storage device. Furthermore these devices really create lakes, or oceans of non-energetic financial capital, far removed from where this liquidity money could be productively utilized. Its creation however makes the creators feel secure in their surroundings, because in that environment they believe they are making their contribution to human society.

Outside that closed niche, and in these uncertain times, their presumptive paradigm should be opened to broader discussion and debate.

In our river system natural productivity requires the sun's energy, the previous liquidity water and the primary nutrients nitrogen, oxygen, phosphorus and carbon dioxide. Yes carbon dioxide, that terrible greenhouse gas that threatens future life on earth and gave us a vast store of cheap fossil fuels to provide the basis of our commercial world, and the gas our bodies create and breathe out with our every breath.

Let's see, our current financial system provides financial liquidity support for us to burn fossil fuels, and create all those nasty greenhouse gases; while supporting the cartels that believe they need at least \$100 a barrel to keep their world functioning. It also makes available to those highly evolved institutions, which we call here dinosaurs, behemoths, and troglodytes, the liquidity necessary

to purchase developing productive enterprises, thereby limiting the power of creative destruction (extinction) of their inefficiencies.

It also provides, or at least it has in the past, enough liquidity to allow governments the faux belief that they could provide massive entitlements to their peasants and serfs, giving those individuals the belief that a truly unsustainable Ponzi leverage scheme would provide security for their future. This pretty much sums up the contribution of the paradigm of mutually assured, economic destruction, which attempts to prevent us from killing and exploiting one another in wars? Thank God!

Back on the river in flowing water, the two most important nutrients to productivity growth normally are nitrogen and phosphorus. Nitrogen is the most abundant gas in the atmosphere, but it also is the element that is fundamental in amino acids and proteins, which are really the basis for life.

Phosphorus, while not a gas, is required for us and all other life covert the stored energy in proteins and carbohydrates into energy that we utilize to keep us alive. Phosphorus is also part of our DNA, RNA and bones, as well as in ATP (Adenosine triphosphate) by which we continually ride the Krebs Cycle, which you can ride to the edge of the belief of the evolutionary universe. Phosphorus is normally the limiting nutrient in aquatic environments.

While we don't have anything as complex as a Krebs cycle to discuss, we can use both nitrogen and phosphorus as models of nutrients required to produce the primary productivity required to restore the business cycle.

You are a big blob of protein, I'm a little bigger than most, but protein, along with our bones, are what holds us all together, and gives us the infrastructure to keep all that stored fat in all the places we would not like to have it.

Keeping with our ride on the Krebs Cycle, phosphorus is the nutrient that energizes us to do work. We would rather not work, but watch television, play video games, drink alcohol, take drugs and a whole lot of more restful, less physical endeavors. However in the current economic environment there seems to be more time for the less physical, which is enforced because of the limitations of our current economic

reality; for there is no money in our liquidity river, just some distant debt lakes, that seem to be represented by bills to pay; arriving every month describing our contribution there to.

Some phosphorus in our river comes from human activity, a lot of it comes from natural sources, but just because we cannot control the amount of nitrogen, in our human enlightenment we make the decision that we want to control the phosphorus and keep the rivers and the lakes from turning green and potentially stinking from too much primary productivity. That requires a whole lot of the economic liquidity to support, and we are just getting started.

We can discuss, or argue how this financial world came about, but in reality, it just slowly grew after the end of World War II, and through the Great Society, the Vietnam War, the Reagan Revolution, the dotcom and the housing bubbles. Through these times we quit broadly fertilizing our entrepreneurial endeavors with energetic phosphorus because we didn't think we needed it. So we blobs of nitrogen continued to increase in numbers and in individual mass, this resulted in a decrease in individual productivity, but we maintained our standard of living and entitlement wealth by debt liquidity with fiat-non-energizing money.

Our answers are not to try to continue to seek solutions from more debt or even more austerity. The solution is more energetic phosphorous fertilizer; we need to turn the river green. The natural source of this energetic phosphorus is what brought about the creation of the United States, based upon the natural laws of God and the active work of attempting to achieve; of what the Declaration of Independence calls the pursuit of happiness.

Blobs of protein really can't be happy without that pursuit, but can only be energized by the reality that we can each make a difference. That difference pursuit will quickly lead to increased efficiency and decentralization, which is where we will take it up next week.