



The Wonder Springs Chronicle

1 February 2012; Volume 14, Number 5

The Wonder Springs Chronicle

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Productivity, Efficiency & Decentralization — Part 2

You can't create a twenty-first century society based upon an educational system promoting the myth that you can be all you can be — by just showing up; enforced by an mediocre bureaucracy — which essentially just shows up; built on a twentieth century industrial model to create workers for factories — that no longer exist; and enforced by a geopolitical financial establishment — totally hedged against any risk.

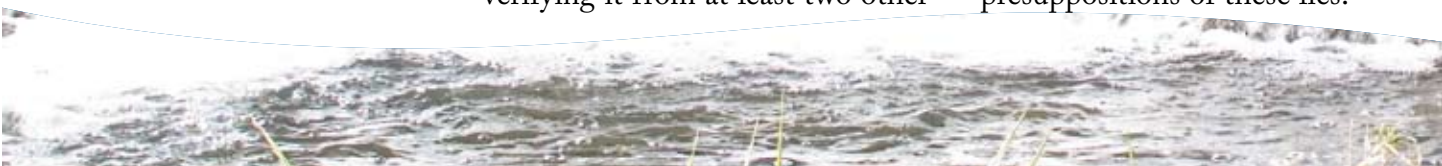
— Jerry Bannon, The Wonder Springs Chronicle, 25 January 2012,
Publisher and angry American citizen

By attempting to pick up where we left off last week and close out this brief series, this article runs significantly longer than I normally like, but I think the context helps provide a cogent framework to build toward a positive future economic path. Borrowing the outline, and placing it in a totally different context from what was presented in a Monday evening presentation I attended, the conclusion is: Make wine, not argument, and definitely not war.

When your first job after graduating from college is in military intelligence, the one universal law is to: Never believe anything you are told without verifying it from at least two other

independent sources. Through experience, even in the more communications side of the spy craft, like the National Security Agency, contrasted with the real spooky dudes, you quickly learn that the real world does not operate as it is generally hyped and anything approaching the real truth is hard to come by.

This of course can quickly make you cynical, if not tempered with the most powerful force in the world — which is truth. Truth always comes with a cost and most of the time untruth grows not so much from its power, but from the naïve perception we do not possess the resources to dismantle the presuppositions of these lies.



One such untruth fostered through the media, especially at this time, is that we live in a global capitalist system of markets. This whole myth supports inductive extreme views that in order to move toward the shining city on the hill, we need either to restrain capitalism or unleash capitalism and markets will work their magic.

Neither view is able to grasp the reality that the industrial consumer age we experienced during much of the twentieth century is unsustainable, because all the productivity gains we have been able to achieve, especially in the last thirty years, have been offset with decreasing efficiencies and centralization.

One of the first principles of business and engineering is that of the economies of scale. The problem is that there are limits to these economies and unless those limits are taken into account we will have to eventually pay the price. Mathematics, especially the complex mathematics used in economics and engineering do not recognize these limits because they are built upon the faulty assumption that the past is the “only” predictor of the future.

Last week we assigned and discussed some homework that included a video of almost an hour in length from Moyers & Company on crony capitalism. This week there was another installment that featured John Reed, now president of MIT and former Senator Byron Dorgan, related to financial deregulation. We also watched the first episode of this series on “winner take all politics.” The episodes come in both video talking heads and just talking podcasts. All three seem to qualify as what historically was called journalism; now mostly extinct in the United States, except for a few isolated microclimates.

We closed last week with a brief introduction of the now forgotten reality in which most of the economic growth of the twentieth century came about during times of high marginal tax rates, the highest being over 90 percent and was at 70 percent before the first Reagan tax cut. These high marginal rates, all over the world, created a vast pool of flight money for startups, limited partnerships and investment scams.

When you cut right to the truth of the matter, this was truly capitalism saying that it is a more efficient use of capital to “invest in these risky endeavors than to give it to inefficient government(s).”

Art Laffer’s curve changed that by reducing the marginal tax rates to the point where the government burden became a smaller share of available capital and investments moved to established “publicly” traded firms. What was lost however was any emphasis on funding the innovations (capitalism’s creative destruction) required to provide continuing economic renewal through entrepreneurialism and enterprise startups.

As we also pointed out last week, the Laffer curve only simplistically deals with increasing tax revenues to the federal government, the total antithesis of what I understand to be the fundamental principal of the Reagan Revolution. The Tax Reform Act of 1986, closed many tax loopholes and the fallacy that “I’m from the government and I am here to help, was briefly codified into law. The voodoo economics was not so much in the fact that supply side economics didn’t work, it was that the trickle down didn’t, because there were no incentives for the Revolution to foster true innovation, which is the basis for the strength of the “free” market system.

In other words the market was no longer free, but eschewed towards what could be called the financial services cartel; defined as groups of brokers, dealers, bankers, economists, consultants, lobbyists and politicians that benefit from the transaction, without any skin or investment in the product. They get paid for providing no value added, they are too special to get dirty, they get paid for just showing up. Sadly just as our current education model, the cartel emphasizes this is all they need to be, because all they know how to do — is just show up and take their fees.

This was essentially what created America’s income discrepancy, the one percent that the president, the occupy protestors and even the tea party vilify, while many establishment conservatives simplistically consider our only hope for the future.

In retail enterprises there was what traditionally was called the keystone markup and the ten percent rule. The keystone markup basically doubles the products’ price from the wholesale purchase price within the retail establishment. The ten percent rule generally adds about ten percent to the price from the manufacturer through each of any number of distribution channels before it gets to the retail store.

The changes in consumer retailing in the last generation has come by elimination of most of the ten percent rule by big box stores and membership organizations, such as Costco and Sam's Club, which has also allowed them to reduce their markups to well below the keystone.

With the elimination of the Glass-Steagall Act in 1999 by Congress and the Clinton Administration, instead of providing greater marketing efficiencies we have seen in retailing, what has really happened is that we have developed a global financial oligarchy and that oligarchy has essentially used the ten percent rule to overcome any financial regulation at all. The Dodd-Frank Financial Reforms just added further inefficiencies to financial markets and consumer affairs.

My real problem with American federalism has little to do with politics, but much more to do with the way it has been practiced throughout our progression from the Great Depression until the present, slowly becoming more unproductive, inefficient and centralized. The whole centralized paradigm requires the American people and corporations to send their tax monies to the great government in Washington DC and those highly enlightened servants of the people send a small portion back to do essentially everything we desire our governments to perform.

What we need is really an amended ten percent rule for all taxes in this country. Local governments get ten percent, states get ten percent and the federal government gets fifteen percent. The federal government percentage is ten percent for government programs and five percent for things not performed by state and local governments, such as defense, some infrastructure, social security and a few other limited safety net provisions.

Total American government spending for 2012 is estimated to be about 41+ percent of GDP, federal spending 25 - (minus) percent, state spending 9+ percent and local spending 11+. In Washington state much of local spending is collected and distributed by the state; nationally the combined state and local spending comes out to be my 10+10=20 percent rule, to two significant figures. The problem is with the feds.

When you figure that in 2012 the projected federal deficit is \$1.1 trillion, (added on to \$1.3 trillion in 2011), you see that for 2012, 30 percent is deficit spending. So say, the do nothing federal government could, without a drop in current GDP, presto-change-o eliminate the deficit spending, the current 25 - percent drops to 17+ percent, close to the historic averages; bringing the deficit into the range of our fifteen percent federal threshold.

I suppose this is the basis for Newt Gingrich's 15 percent flat tax rate, but I haven't checked. Even if that were true, there he would include no provisions to reduce the national debt, recently surpassing 100 percent of national GDP. Saying that will be made up by just economic growth requires something not shown in smoke, mirrors and manure homework.

So let's see if we can wrap up a century of enlightened development in a brief summary. Notice the absence of the terms "progressive" as a political term, because along with the historic-modern definition of "liberal," they both serve no useful purpose.

For most of that time, high progressive federal income tax rates led to an unproductive, inefficient and centralized enterprise ecosystem, but at least those inefficiencies allowed for the creation of startup and entrepreneurial activities through what we could call "flight money".

When these market inefficiencies began to become a drag on the economy, rather than seriously looking and deductively analyzing what we were doing, we just believed that the future was always going to be more rosy, wonderful, and prosperous than the past. In that enlightenment we believed in and attempted to fund concurrently the civil rights movement and the Great Society, while we were fighting the nasty communists in Vietnam.

This forced us to move from the hard money of Bretton Woods after World War II, to real but still tangible money after Nixon closed the gold window in 1971. As we entered a new century, through similar faux reality dreams, we changed from real money to true faux debt money under Alan Greenspan at the Fed.

The Reagan Revolution cut those marginal tax rates, improved utilization of financial assets,

somewhat decentralized what we would call “federal discretionary spending” in favor of the military industrial complex, fostered classical investments and in the process eliminated flight money, much of which was then collected in government taxes associated with the Laffer Curve.

During the 1990’s we realized that “the era of big government is over,” and we repealed Glass-Steagall and other restrictive regulations on classic commercial and investment banking, thereby putting the United States in the position to be the financial center of the universe. In other words, these laissez faire practices, accompanied by faux money, changed the economic landscape when we entered the twenty-first century.

As we entered the new millennia, we elected a new president with a Mediocre But Arrogant degree (MBA) from Harvard. Because of 9-11 and other factors, the wheels were beginning to come off economic growth, so we decided to add a new level of stimulus to the faux money paradigm, which was essentially unlimited-unregulated financial leverage created by the wild frontier of faith in globalism’s utopian potential.

Those within the financial cartel determined the best way to grow that leverage was to alter the American Dream from owning your own business and building your own wealth, to owning your own home, and giving you a huge mortgage, which could be bundled, insured, and hedged to the point that everyone involved in the financial services cartel could get their fees and bonuses and pass the risk to the patsies in other areas of the world. That way you could tell them you were giving them American cake while keeping the money within the well secured financial cartel country club.

That all changed when the housing bubble burst. For all intents and purposes the American entrepreneur, the historic source of economic innovative renewal is extinct — and has been for a generation. But since I am writing these words along with an increasingly loud chorus of others, that spirit and those dry bones are again coming to life.

How is this going to take place?

The diagnosis of the occupy protestors and even president Obama is right. The problem is with the

one percent of the richest Americans. However the occupiers and Obama think the solution is totally early twentieth century. Their solution says bust down the fence around the country club, redistribute the wealth, make them pay — and become one of us. This is really a problem with inductive reasoning, which all forms of social justice attempted to achieve through centralization and failed so miserably during the last century. Spinning that bottle again, gets us nowhere.

Furthermore the prime cause of the housing bubble was the Ayn Rand alternative to these collective elitist centralization fantasies; unrestricted libertarian laissez faire scoundrels money aspirations, enabled by FED chairman Greenspan, by which they were able to build the country club and erect the fence.

Sadly much of the Republican Party still seems to believe that someday the wealth will ebb through the fence to those less fortunate. The real problem however is when you really think about it with an opened mind, all the one percent country club has is a mountain of highly leveraged faux money and really very limited true transcendent wealth.

Changing the analogy slightly, the world is full of highly leveraged faux monetary debt and the developed nations are adrift and unanchored on this ocean. The emerging countries and less affluent are even in a worse predicament. Furthermore in real reality there is no sovereign government in the world that is successfully handling this problem. The first country that we will soon see reenter the real world is Greece, but even the mighty Germany is in trouble when their high ticket exports no longer have a market.

If centralized “sovereign” governments can’t make globalism work, what are we to do?

What people have done since the beginning of people. That is simply build productive, efficient, decentralized yet interconnected (now emerging) global communities. This possibility didn’t exist in 2000; it really didn’t even exist in 2010. In early 2012 all we have is some vague mental construct where we are not going to be able to go back to what we thought worked before.

When the Reagan Revolution moved classic investments to the status of the only allowed wealth

creation player in the game, it set in motion a progression, which thoughtlessly created the lost decade of the early twenty-first century. Probably for the first time in the history of human economic forecasting, most of the computer models say that this second decade is going to be more of the muddled same, before —?

From a natural ecology perspective, grasslands, or savannahs, are the most productive, efficient and decentralized ecosystems. If the creative destruction of a wild fire comes through every so often, the next spring, or rainy season, productivity is back at it, with vigor, while it will take a forest a decade to become reestablished, a century to be a forest of trees, and centuries until that climax forest reaches its former glory. For the grassland that climax continuum can take a decade.

What we, the 99 percent need to do, is begin to plant that grassland with seeds, not of money, but human potential and true wealth creation. A presentation I went to Monday evening closed with a wine story. We all know that the one percent really enjoys a high quality wine, and will spend a lot of money to get a bottle from a great vineyard of an unusually good vintage year.

Over the last half of the twentieth century the valleys of the west coast of the United States has become not only one of the world's most proficient wine producing areas, but also one of the best in terms of quality. California produces by far most of that wine, followed by Washington and Oregon. However small specific areas with certain soils and microclimates in both Washington in Oregon

produce some amazing vintage selections.

These great wines in Oregon are produced in the poor sandy soils that were deposited in and around the Willamette Valley by the catastrophic Lake Missoula floods at the end of the ice age. These poor soils along with just enough natural rain create enough vegetative growth stress in the grape plants to eventually produce great wine.

In Washington, for the most part the great wines are grown on the fertile loess soils that were not washed away into the Pacific Ocean by the Lake Missoula floods, but the grape quality here is enhanced through restricting the vegetative growth by limiting irrigation water, therefore producing outstanding wine grapes.

So as radio commentator Paul Harvey used to say, "The rest of the story," is if we want to get the one percent of the rich people to leave their fenced country club, surrounded by a moat of money, money everywhere and none of it fit to drink, we need to give them the opportunity to invest in a vineyard that produces the fine wine of economic opportunity, purpose, wealth and diverse security; and just like the field of dreams, they will come.

And with the profits from these new vintage enterprises, we can build or buy a real vineyard and winery, or whatever else floats your boat (even on a faux money ocean).