



# **Technology, Economics & Public Interest**

## ***Occupy and the Current Global Downturn***

***March April 2012 Part 1***

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## Executive Summary

This issue is dedicated to the Networked dissidents of the Arab spring, Take the Square in Europe and Occupy in North America. As long as we are able to gain uncensored access to networks, people, economic information, policy studies and financial and government documents, it is still possible to examine an alternative future for the development of a democracy that is not under the feet of oligarchs. I've compiled this issue as the results of my first-hand experience with occupying in New York, Seattle Washington, and Trenton New Jersey in the fall and winter of 2011- 2012.

I've come to understand driving urge, indeed the necessity, felt by so many of us who see life in this country is very different from what we grew up believing in. And by the example of my younger peers, the present necessity to build an alternative future. This issue plays out in part from my own experience but also in part from getting to know better to friends that I met almost 20 years ago who have provided very sharp analysis of where things went wrong and what should be done.

This is a collection of my own efforts to understand what is happening and to draw together material that I hope can be useful to others who are saying "enough". Obama has betrayed those who elected him and made it very clear that all of us are on our own. In Washington the ruling elites in their circle the wagons and set upon maintaining their own privileges and are quite willing to continue on the current path of overturning the Bill of Rights as well as many of the fundamental principles of our Constitution that gave the United States government consent of the governed. We have been asleep for far too long

But last September, linked by the Internet, we began to find our like-minded brothers and sisters. Through Occupy we now have a sense that there may be something that we can do other than cower in our homes awaiting the so-called protection of homeland security. It may be that we can say "enough" to the 20th century mores of compound growth, global capitalism more and more tightly coupled with technology that, if all is well works, but is also predatory. This same technology -- subject to strain and so tightly stretched in search of ever larger "profits" -- is also subject to collapse in unforeseen ways.

There **are** black swans out there. But amazingly going into the 4th year after the collapse of 2008 we have been fundamentally unable to seriously alter the course of our governments in the United States and in the European Union. It is extremely clear the vast majority then assumed that major reforms would be undertaken but after four years, they have not been. This is a shocking and staggering fact recognized by Chris Hedges and

Larry Lessig. Lessig has said earlier in January 2012 that this inability of our government to make the necessary reforms is evidence of the total corruption of our society as it has been utterly captured by the tiny elite that intends, no matter what, to maintain their privilege and looting until the very end.

There are things to be done; that some reasonable degree of rationality and sanity would seem to dictate should be done; but we see that doing them increasingly is subject to the willpower of a small number of determined dissidents who have not yet lost all shreds of idealism and are feverishly working at the edges of society with the conviction that they do have a better way, a sustainable way, a way where empathy towards one's fellow human is still possible and where the race to the bottom by an unfettered global system that has become so unbalanced and is now oscillating more toward collapse into equilibrium is a necessary end for which to strive.

I intend that sections in this issue form a loose anthology of examples of ideas, and people, and thought-in-progress to point toward a sustainable rather than a purely extractive, exploitive economy that may give human beings the possibilities of a better future. If that is, we could somehow shake the current direction that from the top seems to want to push all of us toward the reestablishment of a medieval feudalism with the feudal lords dictating to the rest of the indebted peasantry what they can and cannot do. If this is what is at stake, we must nurture ideas about how to reestablish connections in neighborhoods that we have lost as we have allowed ourselves to be entrapped by a half-century of post-World War II acquisition of material goods at the expense of spiritual poverty.

## **Patrick Soon Shiong and Too Big to Know**

I set the scene with an introduction and review of David Weinberger's new book *Too Big to Know* wherein he suggests that one of the most significant changes brought by the Internet and by the continued rise of ICT technology is that knowledge is in the network. That growth of information and awareness of what is happening tends to be beyond the conception and grasp of single individuals and that some kind of synthesis can be achieved only by using the network to piece together what is happening. The experience that I have just had in telling the story of Dr. Patrick Soon Shiong and his acquisition of National Lambda Rail has confirmed this in my mind and I use the review of the book and this introduction to explain how I used the network to approach a situation where the new private owner of what used to be a national resource was not interested in talking about what he was doing beyond the depth to be found in a series of press releases.

Consequently, I've chosen to make my own description from the point of view that maintenance of any kind of reasonable democracy depends on some degree of citizen's knowledge of what private entities are doing and that it is a reasonable exercise of citizenship to lobby for transparency of the projects and goals of any group of people who are trying for example to completely revision the system of healthcare. This is a re-visioning that cer-

tainly is needed, but one that I maintain urgently needs to be done as much in public as possible. But the lesson learned is when we abandon all public-interest to the private sector, that private sector can choose how transparent it will be. The outcome we are left with is the interaction of the accumulation of wealth at the very pinnacle of our society and its impact on what used to be referred to as the "public good" or the "national interest."

So what is going on? What should we be thinking? In an interview with Jeff Sterling and Jeff Michka, we discuss some alternatives of organization that could focus on the 99% organizing along the lines of cooperatives or mutual benefit societies or things like the Grange that we had in the United States at the end of the 19th century. Then, in a long discussion with Jeff Michka a community activist north of Seattle Washington whom we met almost 20 years ago, we present Jeff's analysis of what the last 30 or so years of business friendly, free market, Republicanism has done to Americans and their ability, if they are not in the 1%, to form and maintain stable communities and stable neighborhoods.

If you are in the 1%, you hire your servants. If you don't like them, you get rid of them and find other people who will work for low wages. If you're not in this elite group and are interested in stable survival, all signs are that you'd better begin to look to localized resilient, and sustainable communities. We trace the picture of how all of this selling of the independent "cowboy" ideal of entrepreneurial business life, with the simultaneous selling of debt in the midst of an economy where free trade and globalization as well as many other aspects of the newly reorganized political system, has kept wages flat. Under such conditions people more interested in keeping up with the Joneses and in keeping up with their neighbors in the collection of things they brought largely on credit and then disposed off have now crashed into a brick wall that was there unacknowledged all the while.

Gambling in the midst of a destructive economic system powered by the Federal Reserve's manipulation of the economy to, on the one hand, move the manufacture of products outside of the US and to a lesser extent outside of Europe, while, at the same time encouraging the so-called FIRE sector (finance insurance and real estate) to gamble on speculation in serial asset bubbles: real estate in the 80s, Internet technology in the 90s, and then real estate round 2 in the "oughts." These asset bubbles have since exploded and left the story of the middle class devastated.

## **Hedges: A Corporate Coup d'Etat**

We been sold a bill of goods that our financial system, following the inexorable dictates of the so-called free market produced a wealthy and prosperous society. But it was a society founded on a house of cards where instead of the financial system involved in building and in sound infrastructural investments that would employ new people and make new industries, employment was shipped out of the country and for the wealthy **financial** capitalism was elevated to a new pinnacle where participants were lured into gambling their fu-

tures casino style and ultimately now many of us are rather shocked to find that the banking system has along with its corporate handmaidens has executed what Chris Hedges properly labeled in his January 2012 talk with Lori Larry Lessig a coup d'état.

One of the most troubling points is the lack of understanding among people at large of the dynamics of the changes brought about by the transition from the industrial capitalism of World War II undergirded by the safety net of Franklin Roosevelt to the globalized casino style capitalism of the 90s. This was under the guise of what has come to be known as so-called neoclassical economics enshrined the "invisible hand" of the free market explaining that à la Adam Smith of 2 centuries ago this was the way the vision of the world of labor into specialized skills that not only made the Industrial Revolution possible along with an upsurge in prosperity for a large part of the population of those countries in the lead of these changes—that this these events were somehow rational, to be expected, and inevitable.

But some of us are beginning to see this as a Bill of Goods sold to us by so-called mag-nates that acquired ever greater wealth through the liberalization of markets and the tearing down the financial barriers that at the same time allow them to take their winnings and capture not only the regulatory system but also the legislative system especially in Washington in Europe.

But as with any field of learning or intellectual endeavor and especially the field of such complexity as one of how to make the kind of economic policy that enables a prosperous and stable society, we now find ourselves in the struggle of old versus new paradigms as elaborated by Thomas Kuhn in his classic book the Structure of Scientific Revolutions. We now have a revolution going on in economic theory.

## Rethinking Economics

I have included a very long and detailed collection of material with which I've tried to explain how I have evolved my own understanding of the current economic mess both as empowered by those who are profiting from and as criticized by those who are horrified by seeing the edge of the of this to which the inexplicable lack of reform is driving us.

Basically I tried to explain that there are a body of economic ideas growing up independently of the neoclassical view that is still in the driver seats. These views are those of Steven Keen the Australian economist and author of *Debunking Economics the Naked Emperor of the Social Sciences Dethroned*. That is being funded by George Soros's Institute for New Economic Thinking. And a collection of economists known as followers of a post-Keynesian view would the world known as Modern Monetary Theory. Many of these folk Bill Black for example, Michael Hudson, and others are at the University of Missouri Kansas City campus and are urging new looks at the role of debt within government fiscal policy as opposed to the race of lemmings over the cliffs of austerity.



I have essentially reprinted a very recent lengthy Michael Hudson article entitled *Banks Were not Meant to Be Like This* that offers a very enlightening to work through the merchant banking of Holland, England, and the US compared to the theory of more government controlled on behalf of of investments in national economies taken during the 19th century in France and Germany and lasting with considerable influence throughout the 20th century. This offers a very different view of the world and its possible future than those coming out of Pres. Obama's Treasury Department which continue absolute fealty to what by now should be utterly discredited neoclassical economics.

Under these contrarian points of view, civil government must have a role if civil democracies are to survive and they must take very different approaches to the role of debt in the development of their economic policy in contrast to the Anglo-American neoclassical dominance that rather amazingly tends to discount the role of debt and leads to a situation where, according to these critics, policy being advocated cannot do anything other than slowly work off the debt even though fraudulently created over a period of perhaps 20 to 30 years.

For those involved in occupy, influencing the outcome of things on this "ethereal level" will not be immediately terribly likely. On the other hand, it surely will do no harm to increase the knowledge amongst as many people as possible that there are reasonable alternatives to what the moneyed classes are using their political power to impose upon us.

And I also maintain that there is a critical issue arising from the question of where occupiers are going to go, and that one of the most important issues for the movement during the remainder of this winter hibernation is to adopt a focus that will not betray the goals of not negotiating with the current system, but will establish goals that are positive and reasonable and understandable to the less than fully committed communities in which occupy is taking root. Occupy has changed the tenor of the national conversation to one of sharp focus of the inequality of both wealth and opportunity. This is extremely good. But many people are reasonably asking what next?

I would suggest that a very inspiring example has just bloomed in Milwaukee Wisconsin. There occupied Milwaukee has identified and taken possession of an abandoned bank building that they are beginning to rebuild and renovate into an operational headquarters for the movement in Wisconsin to be called the "Milwaukee Center for Occupation." They will build there what can become a showcase of the kind of life and future that those in the occupy movement say is one that can be decent, democratic, sustainable and something that we could be proud of having down to our children. Given a situation in which the alternative could well be continued economic collapse, violence and decent into a state-controlled by means of the military corporate fascism -- the legal groundwork for which is already being shockingly made by the Obama administration during the winter.

Is it is time for the varied occupy camps to think globally. It is time for the General [Assembly's](#) to identify a positive action involving the renovation of the building or buildings or property and action that would be a step by each community in the direction of self sustainability and action that like Milwaukee would give to groups an opportunity to demonstrate that they are in this for the long haul that they can show their local community they can do and achieve positive change. This is something to work for in each community and must be used to achieve credibility.

It is also something that I believe is exceptionally important in the context of the United States in an election year in which Obama, in conjunction with his minions at the Department of Homeland Security, will be looking for the opportunity for confrontation with local groups and the chance to paint Occupy as the enemy. Not the enemy of Wall Street but the enemy of the so-called American way of life. It will use the well-installed Bush tactic of fear, a tactic that Obama has continued to develop. They will develop excuses to demand the dismantling of everything Occupied. I suggest that it is extremely important for occupied groups to shift not away from their criticism, but toward the identification of specific accomplishments in each community. To move toward something that would give neighborhoods and communities *reasons* to organize. After all, wasn't our President once upon a time a community organizer?

And if communities can manage to do this, their homeland security militarized police forces will be much more likely to side with their community's occupy groups which at a local level can and must begin the process of rebuilding and citizen in control and trust that Washington is incapable of achieving.

### **As we go to press**

The material on page 88 originates with the [National Commonwealth Group](#) a new organization centered on things that groups can do locally (including local banks) to fight Wall Street dominance. It is encouraging. But something discouraging is happening with increasing speed. Drones -

By Kevin Carson on P2P an [excellent summary of the two edged sword](#). And John Robb has been [recently writing on almost nothing else](#). This [quad roter swarm video](#) has been on youtube and for less than 72 hours and has more than 1.5 million views.

# Introduction to the March April 2012 Cook Report

***“Failure of Reform is the biggest signal that this system is totally corrupt.” - Lawrence Lessig***

With the rise of Occupy Wall Street and its spread across the United States and throughout much of the world it has begun to seem possible for those who have been dismayed about the direction of 21st-century capitalism to find a public voice. What happened? Serial economic asset bubbles coalesced with the disillusionment thousands of new college graduates deeply encumbered by the debt of student loans, and in no small part because of the malfeasance of Wall Street without jobs. This volatile mixture -- aided by social network platforms -- finally followed the advice first given in February of 2011 by Chris Hedges and later by Adbusters to engage in civil disobedience as the only thing left -- given the moribund state of the political system. Consequently, the occupying encampments were born beginning on September 17, 2011 in Zucotti Park in New York City.

Three weeks after visiting Zucotti on 20 October I had the good fortune to visit Jeff Sterling in Seattle, to attend Supercomputing 11. Unbeknown to either of us at the time my plans were made, I landed in the midst of occupy Seattle. Most of the time of my eight day visit was taken up with discussions of various occupiers, with joining the National ICT group of Occupy Coordination; with getting to know Jeff Sterling better and reviving my friendship with community activist Jeff Michka at whose house I had stayed for 2 1/2 weeks in May of 1993 with a rental car driving around and doing interviews with people involved in the new digital networks technology. My interviews shed light on new digitally linked privacy invasive standards for education, public health, the availability of legislative information and so on. In the summer of 93 I published my reports on what I observed and by 2010 what had been tentative toe-in-the-water experiments in Washington state had metamorphosed into our current all-encompassing Internet and data storage-based world that's put many of the traits of the previous decades into operation in overdrive.

Jeff Michka was certainly prescient then in his feelings - he saw it coming. In the analysis that he shared with me in November 2011, I think that once again he has an especially perceptive understanding of what has happened. All in all, it seems that the lid had been taken off. The common view of many involved in the movement was: "I've been waiting all my life for this." I certainly found that there was far more activity among the people participating in the encampments than the mainstream media observed. The occupiers were staying not only engaged in protest but formed into hundreds of working groups to discuss what more positive directions might look like. We're all in the middle of a very fast-moving torrent with rocks downstream and we don't quite know where they are but I believe there is a sense that the past cannot hold and we had best think about becoming much more local while keeping through the Internet our ability to share ideas and share creativity. At the same time however with our highly complex interwoven globalized, financialized society showing many cracks and strains a new

crisis can easily emerge and create a situation where we had better think about how we get along on our own. This will mean understanding and strengthening our local communities.

The personal isolation and isolation local communities so artfully described in the 1st part of this compendium by Jeff Michka has to be reversed. As we better get to know our neighbors much better because we may well want to be depending on each other. See John Robb's newly announced [Resilient Communities website](#).

I have been struggling to understand these changes and they are profound ones at the heart of the level of complexity that the technology based globalized world now faces. There are changes in culture and education in governance that are happening all around us. I will describe one of these. Jeff Sterling and others have been thinking about the development of local societies based on guilds and mutual benefit organizations co-ops designed to build out a local structure in a more horizontal and participative way than our corporate driven social and economic 20th century-based mass production. By means of discussions with Jeff Michka and Jeff Sterling, I will explore some of these ideas in the pages that follow.

Having ascertained how deregulated financial speculation enabled the looting of our economy both locally and globally, I have been exploring the ideas and programs of economists who, correctly I believe, say that, until we get out from underneath the rigid rational fairytale of neo-classical economics that is guiding public policy on behalf of the 1%, we will have no real progress in building a decent future for the rest of us. Therefore I've cobbled together a long section explaining what my understanding is of a non-mainstream critique of the current situation where after some trillions of dollars of emergency aid to the zombie banks, the current economic situation is more precarious than any of us have ever seen.

Economic distrust, high unemployment, rapid technological change are heating up a witches brew of instability. And our corporate led and manipulated governments as shown by Adam Curtis the British documentary producer for BBC seem ready to move and manipulate the citizenry on behalf of their own interests into accepting more and more authoritarian governments in exchange for promises of protection against alleged terrorists threats.

These are events at the center while at the periphery issues of buildings local self-reliance resilient communities seem to be very important. Trust is increasingly in scarce supply and in looking at Barack Obamas interest in finding an off switch for the Internet it is a hopeful sign that many young geeks have been designing prototyping and building their own largely wireless alternatives. This issue will document in considerable detail the work of the leading group in this area—Isaac Wilder and Charles Wyble of the Free Network Foundation.

Finally, it will end with a reprint of a recent exhaustive sketch of the 6 year-long process of building Open Source Ecology with its major encampments in Missouri and California and a couple of prototyping efforts in Europe as well. Factor e farm and its accompanying toolkit of 50 modularized interdependent locally producible machines again has the potential to serve as a guidebook for the development of more sustainable locally focused communities that can help relocate power from the tip of the

global pyramid to a much more broad and, one would hope, more stable mission of horizontally inter-linked cooperatives.

While one person at this point in time can do nothing definitive, I have decided to try to put together my own point of view about what I have found that seems useful and helpful in understanding what is happening and donate to the 99% in help and that it can help educate and spread positive ideas.

## Part 1 Introduction - Strategy and *Too Big to Know*

Jeff Michka and Jeff Sterling some ideas about new social structures

Michka how did we get to the point at which we now find yourselves.

A look at a cooperative education effort -- Clearwater school

Economic policy ideas for the rest of us.

Open source ecology local do-it-yourself infrastructure

Part 2 and alternative open network--the free network foundation.

And in the spring a revision and update of Jeff Michka's community organizing handbook.

## Strategy and *Too Big to Know*

We owe ourselves a look at strategy. A lot of us know **where** we need or want to go. How do we **get** there? How to diagnose the current situation in such a way that we can identify a goal or goals that are shared and attainable in a reasonable amount of time. Larry Lessig's [Concept of Root Strikers](#) is very interesting and deserves a look. Richard Rumelt's October 25 2011 talk [Good Strategy/Bad Strategy](#) is worth a look as well. Here is a high level summary. Identify and understand your problem and devise an approach focused on it. A good strategist will try to find a diagnosis where something can be done that will produce change and articulate a focused, coherent action that can be brought to bear on the problem. What is wanted? What is need? Resources, money? Where will you get them and how? But until you identify the problem that your strategy is designed to address, you cannot do any of the remaining task. Cultivate insight . . . . your gut feel. Create a proximate objective something that can be done now to push through in 12 to 24 months. The objective should be reasonable and not blue sky. Assess a goal that you want and figure out resources that can win. Expect entropy and inertia. Understand the wave of change you are riding and that weak links in a chain matter. You must have a goal and know what steps to take to get there.

Michael Hudson writes: Banking has moved so far away from funding industrial growth and economic development that it now benefits primarily at the economy's expense in a predator and extractive way, not by making productive loans. This is now the great problem confronting our time. Banks now lend mainly to other financial institutions, hedge funds, corporate raiders, insurance companies and real estate, and engage in their own speculation in foreign currency, interest-rate arbitrage, and computer-driven trading programs. Industrial firms bypass the banking system by financing new capital investment out of their own retained earnings, and meet their liquidity needs by issuing their own commercial paper directly. Yet to keep the bank casino winning, global bankers now want governments not only to bail them out but to enable them to renew their failed business plan – and to keep the present debts in place so that creditors will not have to take a loss."

### Larry Lessig and Chris Hedges January 25, 2012

**Hedges:** and yet we have no mechanisms now to stop them. There is no way to vote against the interests of Goldman Sachs. Obama has proved utterly useless in taking any actions to curb this class of speculators, who are using taxpayer dollars to re-inflate the bubble all over again and make themselves as much money as they can yet one more time before it crashes. I mean it is really quite staggering.

**Lessig:** failure of reform is the biggest signal that this system is totally corrupt . It is one thing to imagine the buying of deregulation before 2000 but **what should be terrifying everyone, even conservatives, it's the fact that after this crisis for the 1st time in American history the government did not have the power to respond with real reform.**

**Hedges:** literally these corporations which have commoditized everything – human labor and the natural world -- will exploit them until they collapse.

**Lessig:** in the Eastern European revolutions of the late 1980s the power at the top did not turn out to have broad based resources and was pushed aside with little bloodshed. Here it's a different matter....

**Hedges:** and this is why occupy seeks to divide the pillars of the establishment rather than engage in frontal assault - to remind the police that they are part of the 99 percent and to develop its own media and in short to develop parallel structure that permit an alternate way of interacting with in our society.



**Editor's Note:** I found this iamge on the net while reading an economics blog. I copied it to my desktop unfortunately without copying the URL that would identify it. I have tried since with no success to find it. It is a delightful mash-up of a Times Square New Years Eve crowd I would guess around 1950.



Occupy is maligned by its critics for not having a specific goal or a list of demands. This likely is its greatest strength because what it has done is identify the disparity of wealth and how that disparity twists and distorts the social fabric of our environments. This situation is now the central focus of the election year discussion within the US. That is good. And now the co-option efforts are beginning. [Here is a major example.](#) Furthermore, can the lesson of David Weinberger's new book *Too Big To Know* be applied? What to do is out there lurking in the network. It is up to us to make the connections.

## **Too Big to Know - The Knowledge is in the Network**

The author says that the Internet has enabled new forms of communication in has matured into a powerful tool for storing and organizing what people know. It has become a knowledge storehouse of what humanity makes possible by way of knowing and communication. Yochai Benkler, Clay Shirky and David Weinberger have written a useful monographs explaining what is happening over the last 20 years as enabled by the fact that users of the Internet to do not require permission from higher authorities to develop new uses. Also included, are experiments with the creation of new knowledge, Wikipedia for example, the use of blogs to discuss and exchange ideas, and as platforms for the trial launches of their creator's own research.

Benkler, now more than five years ago, first described the way in which the Internet was becoming both the repository and the means of development of a new knowledge. Clay Shirkey and David Weinberger have both written books describing how the net makes it possible for groups to form and take on the various tasks and achieve various means of helping and/or interacting with each other that never before have been possible.

About a year ago Clay Shirkey inquired how it could be possible aided by means of technology for humans to donate their knowledge and ideas into a public commons. That is to say actions that occurred apart from what they would be paid for producing private knowledge on behalf of an employer. Clay concluded that, because the stability of society gave most educated people a significant amount of time where they did not have to work, these people had surplus hours that they could use for the compilation or developing of information that interested them. Whereas, before the internet, the result would have been filed away in a desk drawer or in a letter that might be seen by one or two friends, now the Internet was providing a platform for loose cooperation among groups of like-minded people. As Clay explained it, the time and the means was available for people to share ideas. He named the phenomenon "cognitive surplus."

Now David Weinberger has just come out with a new monograph titled *Too Big to Know* and with a long subtitle "*rethinking knowledge now that facts aren't the facts, experts are everywhere, and the smartest person in the room is the room*". David's points are multiple. That the billion or more people interconnected by the Internet with digital storage for

their data and their ideas have the means of developing a veritable and seemingly impenetrable rain forests of facts, data, information, and ideas. And as other users encountered the rain forest, they can begin to organize it, on their own terms, into something that could be called knowledge and perhaps one day -- wisdom. But while a million people



Photos are of Occupy Seattle November 16, 2011 March in which I participated.





ple can talk to each other, what they talk about is so vast and so amorphous that any meaningful curation and organization of the whole is beyond the ability of any human individual.

Weinberger then goes on to make his most significant conclusion: namely that knowledge "is becoming inextricable from – and literally unthinkable without – the networks that enables it". He continues: "The new way of knowing is just now becoming apparent. Although we can't yet know its adult form, some aspects are taking form. Network knowledge is less certain but more human. Less subtle but more transparent. Less reliable more inclusive. Less consistent far richer."

He states that his book will follow "one particular pathway through an impossibly large territory. That's appropriate since at the core of knowledge's new exultation and transformation is a straightforward acknowledgment of one basic truth we've always known but that our paper-based system of knowledge simply could not accommodate: the world is far far too big to know."

He then goes on his chosen path with chapters on knowledge overload; on bottomless knowledge; the expertise of clouds; a marketplace of echoes; long form, web form; there is too much science; where the rubber hits the node; and finally, building the new infrastructure of knowledge. These chapters give him a scaffold by means of which he has fashioned a guided tour of the capability of the current Internet to gather an unbelievable abundance of facts various levels of complexity woven together by means of hyperlinks.

Hyperlinks affords the user a means of exploration of the author's ideas that is really better and more powerful than the old scholarly form of footnotes. To become completely interactive in the sense that readers can communicate with authors and carry-on discussions of the ideas that the author developed. By enabling readers to walk alongside authors' ideas and prod them into development of new ones, the net carries openness and transparency far beyond what has been available to the public via hardbound books in libraries. Now, everyone can see everything and can dive in and explore in ways more powerful and productive than hitherto imaginable.

As someone who has been an Internet user for as long as commercial Internet has existed and written about it during the entire past 20 years there is not a lot in *Too Big to Know* that was really new to me or that informative. Perhaps with one major exception.

In that exception is David's idea that, apart from any knowledge in the brain of one human being, there is a hitherto unrecognized kind of knowledge out there in the network. I agree with this because I have recently undertaken a project that I think proves David's point in a way that I could never have sensed before I had the direct experience. The case in point has been my ability to compile an extensive document describing the activities of

the businessman Patrick Soon Shiong even though I was unable to have any direct communication with him. For me it was a matter of trial and error, but I learned quite a few things that, should I ever need to do it again, will certainly be useful. Furthermore, I have the knowledge now of just how possible it is – far more possible than I would have acknowledged previously.

## **My Personal Example: How I Found Dr. Patrick Soon Shiong**

It mid summer of 2011, when I found out that the billionaire Dr. Patrick Soon Shiong had purchased the nearly bankrupt National Lambda Rail I was encouraged and wanted to find out what this meant for Lambda Rail and the future research and education networking in the United States. I was also encouraged by people I know who had been a part of the negotiations and who were happy to try to get me an interview with the new owners. Making the right context dependent on overcoming a couple of e-mail gateway hurdles and while I was working on this, I also spent time trying to find out by means of Google what the Doctor was doing.

At first I found only a handful of references the most significant being a 30 minute video of his keynote to the CTIA Association in March of 2011. But then I found that beginning in 2009 the doctor had started to form national organizations aimed at health care reform. By looking at their websites, I found a bunch more videos to which I listened and from which I transcribed notes. The first hurdle I had to overcome came from the NLR Chief Operating Officer in Oklahoma. This was Kurt Snodgrass a man whom a year previously I had gone out of my way to help. Kurt offered to send my email to Peter O'Neil who was the person from Lambda Rail who had operated an exchange in Maryland and was summoned in early August to Los Angeles where he went to work for Bob Peirce.

I sent some brief notes on what I was finding out to Kurt who sent my requests to Peter O'Neil telling me that, if I passed that hurdle, he would respond and as a result of the response I would get his e-mail address. Of course, by this point, I knew that the doctor's right-hand man was a retired British diplomat named Robert Peirce who had been the doctor's "government affairs officer" [lobbyist] in one of the pharmaceutical companies that the doctor had sold for several billion.

When I was given O'Neill's address, I e-mailed him more material because I had been told that I would have to make the cut through O'Neill to obtain Peirce's e-mail and, once I had that I could directly request an interview from Peirce. By mid-August I was able to e-mail Pierce directly and was promised a 30 minute interview. I had the interview on August 24 and although, I by this time was trying to find out what had happened to a group they had created called NCHI, I was left with a frustrating experience because despite my questions most of the answers I received were those of what sounded to me like a set speech, the standard story being told to a reporter who has the mission of writing 1000 word article that expands slightly on a press release. My normal approach would have

been to request that Peirce give me at least 75 minutes and given the complexity of the story I likely would've tried for more than 2 hours. But this was not to be.

By the end of August I could tell that, while they were putting a barrage of information mainly in the form of press releases regarding various pledges and purchases, they seemed unwilling to answer any free-form questions. I found myself wondering what the overall game plan was and really wanting to understand why NCHI suddenly disappeared in March of 2010 when it looked as though it was the key to his reform objectives with more than a year's worth of work behind it. Why had Peirce had essentially told me that acquiring Lambda Rail fulfilled the mission that they had in mind for NCHI? By the way with a few dozen additional hours of work I did find a reasonable answer.

By this time I had discovered the Doctor's Vimeo channel that had no less than 24 different video clips over the last 3 or so years. I started listening to and transcribing almost all of them trying to put the events discussed into a timeline to find out why, for example the CEO of NCHI and the principal technical officer, one of the founders of the grid who had given presentations on behalf of NCHI to Nevada in January 2010, by April of 2010 were no longer employed by NCHI. It just didn't make sense to me until after another couple weeks of I found out that the NCHI effort seems to appear in the context of their application for a huge national health database grant at the federal level. And I only found out how to explore in that direction by stumbling on the meeting minutes for the Nevada January 2010 presentation. Earlier I discovered the slides, but the minutes also gave me a detailed account of what Bob Pierce had said about Dr.'s objectives to the Nevada officials.

When some person place or event was mentioned I would go to Google and use Google to find out information about the person or the event and move on from there. It was like putting a complicated jigsaw puzzle together. But what stunned me was how much information was indeed there. And how it was possible to take announcements about the investments that the doctor was making and find out what those companies were doing and ascertain how those companies related to the content of his video speeches. The knowledge indeed could be assembled from the network.

## **A Reasonable Question: What was his over all Objective?**

After I had been excavating the network for knowledge for about two weeks which was also two weeks before I interviewed Bob Pierce, I concluded that the only way that I could make any sense out of what I was reading was that the Dr. was engaging in all these activities with the goal of putting together his own infrastructure by means of which he could build his own health care system. When I finally published on about 1 December my 107 pages and more than 38,000 word report, I was more certain than ever about this conclusion. The infrastructure of hospital center grants and medical teams in the Los Angeles area and connections throughout rural California with the Tele-health network combined with a Nevada grant that he had invested in the technology used there and finally book

ended with a series of actions in Phoenix Arizona encompassing everything from an Institute at the University to the installation of the metropolitan area fiber-optic research network that would link into NLRs national backbone left me convinced that the doctor indeed had absolutely sent out to develop system by means of which he could offer his own customers state-of-the-art medical care.

One of the most interesting examples was the area of the need for clinical software and patient record-keeping and interaction with drug and oncology databases necessary for his approach. It seems likely that the Obama Administration's stimulus money from the Department of Health and Human Services in Washington would have enabled him to build the necessary software to run over his national medical superhighway. I had noticed that he was investing in a Texas-based software company called Net orange and only 2 or 3 weeks later, looking to find out in more detail what that Orange did, I found two PDFs that took my breath away because it seemed that that Orange has developed almost precisely the kind of software that he says is necessary.

I had requested information in my interview to be put in touch with people authorized to explain in more detail how Lambda Rail would work and the kinds of projects that were being funded to enable the implementation of what the doctor refers to as patient centered molecular medicine. Unfortunately that for the 1st time in the 20 years I have been doing the **COOK Report** I received no further connections or communications although I did use the network (meaning in this sense primarily Google) to identify other work being done in genomic and molecular medicine by means of grid computing. I found that many other people besides the Doctor were hard at work on these objectives.

I knew that the final major opportunity to test the degree of transparency that they were operating under would be Supercomputing 11 in mid-November in Seattle to which I was going anyway. Since by this point I was clearly of my own, I set up a Google alert that automatically, from that day forward, has continued to send me an e-mail every time a new URL mentioning Patrick Soon Shiong appears on the web. Now I could just sit back and wait for fresh information to roll in. In the meantime by attending SC 11, I saw that they did not have a booth which meant in effect that there was no spokesperson there who would be authorized to explain Lambda Rail procedures and capabilities for researchers pursuing new or continuing grants for network use. If they want any new non medical customers they need to have some kind of public facing interface with the world at meetings like this.

What continued observation that did reveal was an ongoing program of infrastructure acquisition and the building of a kind of central headquarters in Phoenix Arizona in association with the University of Arizona -- there the University President was named the head of the new NLR Advisory Committee. There the ex-mayor has just gone to work for the foundation that Dr. Soon Shiong has established. There a supercomputer has been installed and an agreement reached with the city to use city-owned fiber to connect the

computer to research laboratories and to the main backbone of NLR. And there a new Arizona-based privately owned company has been chosen to deliver the huge disk storage needed for the handling of the genomic research and outpatient medicine data.

In the context of *Too Big to Know* with the knowledge "in the network" -- working single handedly over the 5 months I was able to gather a complete picture -- at least a complete one from an outsider's point of view. Twenty years ago without the internet this would have been an impossible task -- at least for a single person. It could have been gathered by someone with the resources of the *New York Times* if they had been willing to put 3 or 4 reporters and several editorial assistants and researchers on the project full-time. It would've taken the salaries and expenses of anywhere from 6 to a dozen people the 20 weeks that I have spent on my own with no outside help or expense save a broadband connection to the network to acquire the same kind of knowledge and perspective on what was happening.

To me this is a powerful example of David Weinberger's conclusion that the knowledge is in the network. Because even though I received very scant cooperation from the subject of my research I was able to spend probably 300 hours on my own working single-handedly and have been able to paint an extremely detailed portrait of what this wealthy philanthropist-physician is doing. Before the network's growth of the web of connections and entanglements that David describes in his new book existed, one person working alone could never have pieced this data together between the beginning of August and the beginning of December of 2011.

Now let me make it very clear that I think number one that the doctor's analysis is sound that his policy prescriptions are good and that I have seen nothing illegal about anything that he is doing. He's a private businessman after all and private businessmen are free to spend their time and intellect on whatever projects they choose. And free to do so with or without transparency.

What I don't understand is the lack of transparency. Through Jen Hodson I gave Bob Peirce final drafts of my research to review and comment on. Other than an e-mail saying it was a long document would take some while I received nothing back. However when someone who is a major figure in this field in whom I've known for 20 years having looked at my executive summary of the publication the table of contents on the website but not having talked to me directly chose to characterize my research as describing a "reinvigorated" National Lambda Rail, I rebelled. In my opinion Lambda Rail has been kept alive -- but under what conditions -- outsiders simply don't know because insiders, far as I can tell, are not allowed to talk to outsiders.

When the issue was raised on an international mail list directly central to the role of what NLR has been doing in the world before the acquisition at least, I copied to that mail list a roughly 2000 word section of my report describing what I had seen with regard to Lambda

Rail at SCO 11 in Seattle and expressing my concern that it had been taken from an open and collaborative transparent mode of operation to a point of view that as far as I was concerned it was closed and proprietary.

I use the GLIF mail list to demure from what I believe to be an inaccurate characterization of what was going on. A week later I received a piece of intimidating e-mail from the Soon Schiong organization that stated that the author had been given my penultimate draft of 105 pages and had been sent a copy of the section about Lambda Rail that I sent to the international mail list. The note offered complaints and now fresh specifics. Consequently, I am not aware that NLR's new management has established any policy about dealing with the press other than silence. For my point of view as an outsider this is a fairly small group of people moving very fast making a lot of acquisitions and grant commitments and acting under the assumption that they should be able to be in complete control of the delivery of their message.

I am sure the last thing they ever expected to run into with someone like myself who would spend several hundred hours putting their story together. Before the Internet and before the cognitive surplus that Clay Shirkey writes about this would've been impossible. It is no longer impossible and by not seeing fit to give me information that I requested they left me in a situation where I spent far more time and reporting on them at a level of detail that surprised even myself.

I sent a draft of this review to David Weinberger who responded: "It's a great example of one aspect of the networking of knowledge."

"But, for whatever it is worth, it doesn't capture what I think is the most significant change: knowledge existing as a network not only of information but of people. Your example is of you as a network super sleuth, working alone. Your resourcefulness and doggedness are pretty amazing. But a better example of this other side of the networking of knowledge would be, well, your mailing list, where we all get to make one another smarter, and the combined knowledge lives literally in the networking of all the great minds you've brought together."

**COOK Report:** In his statement above David identified another way of looking at the matter. The take away lesson however is that the knowledge indeed is in the network and if one is sufficiently motivated, one can use it to pry it out to a level of detail that is absolutely amazing.

## Chapter 1

# A Peer-to-Peer Economy Approach

## *Thoughts about where we are now and where we should go from here*

Seattle Washington, November 15, 2011

**Jeffrey Sterling:** What we need to develop is a handbook that explains how we will take back our local economies using some of the techniques that we are developing. It would be something that we could hand out to a community saying if you join us and work under these guidelines, we believe that we can work together to create a better economy for our respective communities.

There is a kind of core team that has formed around the ICT intra Occupy communication issues. I'm involved with that and working at a kind of metal level about what a reformed sustainable economy would look like.

There is a lot of desire to do things but I'm concerned that there is some combination of time, money, and skill lacking. Kirby Jacobson up in Edmonds is a good systems analyst. But as far as ICT goes, what I'm concerned about is coming up with a really robust description of the data structure.

**COOK Report:** Online I wondered how one might query the web for more general concepts. [Scraper wiki](#) perhaps. David Weinberger replied: theoretically the right way -- to get the results you want from scraping Occupy info (for example) would be for those who put up that info to use some public standard markup. Then scraping would be 100x easier. I think you're having the dream of the [Semantic Web](#) (which is a good dream to have.) Short of that, scraping is always going to be complex and require a fair bit of skill, because Web pages are idiosyncratic. Further, scrapers break every time the creators of a page change little things about them.

Beyond the need for everyone having a secure connection, we want to create our own economic network and Social Network where we are no longer basic fodder for Twitter and Facebook and Linked-In. We need a data structure to enable people to communicate with each other and also to have significant control over their own data sets. This also permeates into the banking sector and the way we trade for value.

The goal is to expand the gift economy to appoint beyond where one can utilize just on an individual, friend-to-friend basis. We need a mechanism to enable people with a small

group of friends to expand that gift economy and grow it by perhaps two orders of magnitude. You want a robust data structure that is defined with people being objects who can then use their data for specific needs. If, for example, they are focusing on something to do with permaculture or food or anything having to do with energy efficiency work in your community . . . .

**Michka:** In short you wanted to be able to define the data down to the level of individual needs.

## **How to Enable Communities to Help Each Other Horizontally?**

**Sterling:** Yes and the goal would be such that each person could take what data they need to be able to participate in various groups. Now if you get to a certain point you could start reaching out to volunteer organizations that currently exist and say that we have a membership here that is willing to work with you as long as there is some kind of API such that we are able to go into the whole of civic society and start to bring them up to speed on the possibilities of bringing in new volunteers and giving them work.

This is also part of the organizational issue and to deal with this we have been thinking of a 501(c) 8 which is defined as a fraternal mutual benefit organization or guild structure kind of organization. Now I don't want to create an organization based merely on what the IRS rules say but in this case, I think there is a rather interesting overlay between what the statute says and current needs.

These kinds of societies were really strong about 120 years ago because that's how people took care of each other. Given the fact that this entire experiment for a government-based industrialized social safety net either seems to be on the verge of crashing, or indeed you could say that it has now collapsed; that the social contract has been broken; and it's time to begin to look back at the old ways.

**Michka:** Is this related in any way to the idea of the Grange?

**Sterling:** Yes and I need to reestablish my presence in the Grange because there are two aspects to this. The first part is that you have to have a common organizing mission to forming one of these 501(c)8 s. Such an organizing mission could be creating recipient communities along social economic and political levels for the mutual benefit of the members. That is simple enough that most everyone should be able to agree on this aspect. And then --within the overall structure -- lodges or guilds could be quite autonomous.

## **The Social Contract – Re-envisioning What Insurance Means**

The second part of the mission is that you are going to have to provide insurance for your members or you will pay for insurance for them and, as I look at it -- what we want to be able to think about doing is re-envisioning what insurance means for people and how



could we create a broad enough benevolent society so that we get to the point where you have something like caregiver's cooperatives. Because the part that is missing is that, while you likely fit in by taking care of an immediate member of the family, we need to figure out a way to make it even bigger so that people understand that, if you want to join this social order, you have a social contract to take care of other people within the order according to what you are certified to do.

For example, if you are a nurse practitioner or emergency EMT, you can say that there is a certain subset of what the medical community does that has fallen between the cracks. The present disconnect is that the medical arrangement will only help you when you are about ready to drop. They are not much interested in any kind of a maintenance approach such as someone who might need to visit once a week for intravenous fluid or to make sure the person is taking her meds.

A medical history is usually associated with a bunch of numeric insurance codes and therefore does not really give an intelligible picture about what kind of help is needed to an outsider who wants to help such a person. Consider for example, the idea of the health insurance cooperative. You might join such a cooperative that would have as supporting members a few retired doctors and retired nurses or maybe someone who is willing to work on both sides of the fence so to speak. By doing this you could find a way to take care of 80% of people's needs.

**Michka:** This is a system-designed approach where you are creating a human picture made up of many components. This goes back to multiple levels of support from members of multiple organizations.

**Sterling:** Right. Currently they have it set up so a lodge is attached to a single parent, but I think that, in our virtual world, it should be possible to have a lodge that could be associated with multiple parents specialized in different ways of delivering services to the group. Consequently, one group may be specializing in how to create a caregiver's organization. And another may be specializing in how to create a "commons-keepers" cooperative.

I think that, instead of focusing on ways to try to be able to borrow money to improve your property, we should focus on different levels of ownership—where if I were to say I am going to join a guild that has to do with earthquake preparedness for my apartment house for example and I join some kind of a self-insured body that is willing to fix up my place and put that building in a pool of buildings that is "insured".

Now I assume you have a group in the region of the thousand properties that have been upgraded to the same standards of earthquake preparedness and you are willing to join a earthquake preparedness commons that as another form of ownership puts a portion of your property. I would very much like to see for example 10% of my property invested in a commons that exists to insure with the resulting funds that the property is maintained

in a state of preparedness that will mean it is likely to survive a kind of ordinary earthquake.

As another example, we could design and maintain our properties in such a way that we would use 50% less water and in that instance we could go back to the Silo agencies and say to them "because we are taking these conservation measures you will not have to construct the next well or the next pipeline. We then ask the agencies to pay us the avoided cost through the least cost measures that we used to talk about trying to achieve 30 years ago."

You would move to create a series of demand-side reduction cooperatives around various goals that are currently being taken away from us because there is not enough money to support the current system. So you say to them we are going to share more in use less and essentially that we are going to become part of your government because we are providing services that you can no longer afford to offer because of your huge sunk costs.

**Michka:** It is critical that you look at public-private partnerships from the point of view for example of who owns the pipeline or who actually owns the right-of-way. If I have my utility conduits running through a public-private right-of-way, is access to the pipeline granted to the public entity? Well that depends on how the agreement is written.

**Sterling:** With regard to public-private partnerships, I think that right now -- given the fact that all governments are broke and cannot pay their bills; that we are faced with the dilemma in which the private sector and the banks are going to gobble up assets in exchange for debt -- unless we can come up with a well-defined strategy to protect the commons by means of these ideas that we are discussing and to scale back the size and scope of government as a service provider while allowing it to become more of a tie-breaker or an enabler--some entity they can see the whole picture -- **unless we can come up with a viable alternative, the whole future is going to be turned into a public auction of national assets.**

There is a whole set of issues involved around the subject of how to take back government. And I don't mean just the people administering it. I mean the very basis on which it has come to be founded.

Cities in all likelihood are going to have to begin looking more like workers co-op's from the point of view that if you live in the city, you had better figure out what you can do to help support the functioning of the city. If you cannot do anything to support it you will wind up paying more taxes.

**Michka:** I believe that you have two things going on and one of them is to stem the tide. There are real things that need to be done like the reinstatement of Glass-Steagall.

Between 1900 and 1940 there were two periods where things got about precisely as bad as they are now. The first was between roughly 1905 and 1907 and about 1911 through 1914.

The attitude of the 1% was that they could do what they wanted because they were the engine of the economy. Sound familiar?

We have to stem the tide. There are clear legislative models of what can be done. They have to be stopped now and changing one set of officials for another doesn't really do it. Standing on them does and once we stood on them then perhaps it is time to begin to address the agenda that we have just discussed. Because in an atmosphere of crisis at this level and nothing can be done until we stem the tide.

**Sterling:** One thing about this right now is that it is simply stupid to continue to operate under the assumption that more GDP is good and less GDP is bad as the basic measure of whether your economy is headed in the right direction or not. The issue is this: if you're going to create the groups that we've talked about and they are going to take on those agendas and successfully complete them the result will reduce the GDP by 20 or 30%. And this will all be from people doing more with less and sharing more. Caring more and consuming less by definition.

## What Do the Corporations Do When They Can Sell Nothing More?

If all you wind up doing is stem the tide to the point where people say: "oh okay we are over the hump and will be okay now" then you miss the opportunity to do something more radical. In my own mind for the banks and the companies out there the problem is that there is really nothing left to sell to America. America is broke. Consequently, they are moving on to create new economies in the likeness of America elsewhere. Where it will basically be corporate fascism implanted in colonial style elsewhere in a world designed to make everyone want to be like us. The campaign will be to make the world safe for democracy by which you really read "for global fascism."

**COOK Report:** This [Ann Marie Slaughter paper](#) demanding a new American vision emphasizing the "responsibility to protect" is the new corporate carried forward version of what you just said.

**Sterling:** If you were smart person on the other side of this argument, you would say let's do what we have to put this genie back in the bottle. My concern politically is that, if we keep the current nation state system status quo with all the power residing in New York and Washington DC, we are screwed.

## Bioregional Economies

To me the desired direction has to be closer to the notion of **bioregional economies** that trade with each other. And then you say to Washington DC and the corporations if you really want to have this military thing that you love to do for foreign trade and what ever, it is time for you to just start paying for it yourself. We will give you \$10 trillion worth of debt that you ran up on our account but you one so here take it. Meanwhile we will take 5

trillion in divvy it up among 8 bioregional economies and we will take the obligations of the social contract to look out for the well-being of everyone living in our area.

**Michka:** To play devil's advocate -- why bother having an Occupy?

**Sterling:** To me occupy is an indicator that there are probably 20 to 30% of people out there who are really prepared to go for the big change.

**Michka:** Do you feel that that percentage given that number is sufficient enough to accomplish the task?

**Sterling:** I think so. If there is a good direction available. And I would go for a Debt Jubilee. And I would be talking about coming up with different currencies for different things because the current banking system is hopelessly messed up. I think we could pull 30 to 40% of the economy out of that currency and put it into something that is fair for us.

**Michka;** But when you say put the genie back in the bottle—I don't think that can happen anymore. I think the current federal tax code will prevent the necessary kinds of changes.

**Sterling:** In my response is that the single stopgap measure that matters the most is **passing a constitutional amendment to end corporate personhood—in other words Move to Amend. If we could get this done, it would stop all the legal challenges that prevent communities from building their own infrastructure and their own future. What has to happen right now is that communities must feel more empowered to take care of themselves.**

**Michka:** Past "Citizen United" issues, that's just it. This "taking care" of each other, particularly outside immediate family circle, has been taken away, in large measure, by social and economic forces. Watching people where I live - over the last several years especially - has been a real eye-opener. I am within a mixed tract of the 1% with 5 and \$6 million homes; the remains, middle class. The last decade of turmoil has had profound effects, socially and economically, in my particular area, isolating the neighborhood from itself, and, in turn isolated people from natural connections and commonalities. People opted out. It has done this along social and economic lines in ways you can reach out and touch. This is not an isolated circumstance or case, in my opinion. My personal experiences in community and neighborhood organizing have almost died out even as a conceptual art. Barriers of separation are high on home-fronts everywhere. People feel overshadowed and impotent against massive economic powers, on top of other issues. Consequently they turn inward.

It is interesting now how many cities proclaim "We are a city of neighborhoods." What Fortune 500 company out there that doesn't talk about or extoll neighborhoods and communities? None of those corporate entities do much to encourage or actually *build* communities and neighborhoods, but they often do a lot to mollify or co-opt them for "public inter-



est purpose". Most neighbors know we need to do something to augment change right at home, it's that the majority don't know just what to do because two generations of potential activists were bypassed by the feel-good/I'm-in-it-all-for-myself era of the 80s and 90s. A partial solution is for those who have an idea of what to do must start again from scratch

teaching others. Another part is people becoming involved right where they live: A neighborhood.

**The New Neighborhood  
Occupy Seattle  
November 16, 2011**





## The proposed name for the location is the: Milwaukee Center for Occupation

**Editor's Introduction:** It has taken some time for some understanding about future directions to come into focus. As Mike who is one of the key organizers of the plans of the Milwaukee Center says during [the YouTube interview](#) discussed below it was his experience that began about a year ago during the winter and spring of 2011 when protesters took over the Wisconsin statehouse and began to realize their shared capability for self organization and self governance that he began to understand the possibility of grassroots cooperative based organization of the kind expressed in the preceding interview with Jeff Sterling and Jeff Michka. said Clinton was hard work creating the example of local regeneration by means of cooperative organizations based on the concept of self-help and common organization to create a cooperative, community owned, user owned alternative to the top-down state-imposed corporate structure of our society.

We have seen complaints that occupy has no goals. I suggest that by virtue of the head start gained in Wisconsin, the idea of local Occupy's finding abandoned space and building their own examples of sustainable local and humane cooperative living may well be the most desirable outcome. Why not in each community can we begin to build an alternative showcase what we would like that future to be. What follows is the heart of an Occupy Wisconsin January 30 press release by **Occupy Dan and Occupy Kellie**.

*It was a cold and windy day, as we hustled about to get down to the new site. This old building in Milwaukee on Martin Luther King Dr., a place that has caused so much discussion with tight lipped whispers, echoing, like the wind, across occupations. This site has ties to the past and now to the future. A site that, dormant for a long time, has grown to have a lifeline, a pulse, and a chance to become a great place of the future. Join us, as we explore the Liberty State Bank located at 2708 N. Martin Luther King Jr. Drive.*

*The building on the outside looks like any other dilapidated, abandoned building. If you walk close and observe, you can still see the lettering etched into the stone. It isn't embossed, nor made to stand out more than any other lettering. It is still rough, as though it were chiseled out last month, but with the paint falling off; it is obvious that the building has not been given much love, care or time.*

*This is one of many vacant buildings in Milwaukee Wisconsin. But this building is a bit different than the others. This one has a story, a story about the life of part of the 99%.*

*As we prepare to enter this monument, we see a portal to a historical time. A time where any immigrant or citizen had the ability, and the right, to actually get paid a fair wage. A time where men were equal, and those who employed them, treated their employees well. Oh, I exaggerate, that time has not yet come, but this monument is definitely a portal to*

*a time when a migrant worker can come to the "Land of Prosperity" and actually have a chance of survival.*

*Because of the state of the building, there is much to be done. But first, we would like you to see what we saw. Smell what we did, hear what we heard, and maybe feel the majesty of this building. The main entry, unfortunately, has been boarded up. We have to use a hand held, battery operated drill to remove heavy duty screws that hold a board barring the main entry. As this wasn't a multi-person job, I took a closer look at the building's exterior. Simple but majestic, and almost imposing in its façade, the building was definitely an old bank -- with Roman style columns around the entrance and a large arch. It's almost like a medieval castle. An imposing aura like you were entering the domain of a lord. Except there is something that wraps this majestic building to the 99%, other than it held money. The most interesting part of this stone monument, with its rough exterior and high hopes, is its architect, and what Occupy Milwaukee is planning in honor of that dream.*

*As we pass through the arch to another world, we see that the paint on the walls, plaster, glass and other unidentifiable materials are falling to the floor. The building doesn't smell any different than standing on the street, including the smell of exhaust. The floors were covered in dust, dirt, grime, and construction supplies. The ceiling, with multiple skylights, has gaping holes. Almost a portal to the heavens, yet when you tear your eyes away from the beautiful play of light, you crash back to reality. This building needs something any living thing needs, love.*

*Glass has been thrown around the building, either by falling, vandals or various storms. The polished marble stone floors are littered with debris. This sight would make any architect sad, but would have the most influential effect on architect Herman Brunn. Mr. Brunn came to this country and worked a hard honest life, yet he dreamed for better. He strove to succeed, to become an architect. Herman worked as a grocery clerk, and then went into business for himself -- first as a painter, then a designer and teacher, and finally an architect. Because of the things he had to do in life, and the hard lessons he has learned, he inscribed into the top of this building "[Every Man is the Architect of His Own Fortune.](#)"*

*This fitting history and the beauty of the location, mixed with the urgency and status of our time, is why this location is so perfect for what is intended by the Occupy Milwaukee group. This group has worked out an agreement with the Business owner, to renovate and repair, to make this building the Occupied Milwaukee Center. In exchange, the business owner has graciously agreed to bypass monetary value for the building. In exchange for the building, the dreams and aspirations of the occupier's are used for motivation to build something great! Here are a few of the statements that were heard before we started recording the interview.*

*"As I look up to the ceiling, and the sun shine's thru, it is the day before Martin Luther*

*King's holiday. Located on Martin Luther King Drive, in a worn down building called the Liberty State Bank, The suns glistens thru the broken glass in the skylights that grace the ceiling. while the mere presence of the glow of the sun shows the beautiful array of hanging gardens that could be placed in the high etchings of the ceiling"*

*Occupy Milwaukee has the goals of:*

- *Operating the Center as a hostel for 'Occupy' protesters from other cities, and for Homeless Youth.*
- *Using volunteer labor, in exchange for room and board, for those who have no income and need a place to stay.*
- *Modeling, demonstrating, and teaching, all possible legal methods and strategies for working outside the confines of the system to achieve personal prosperity and community.*
- *Offering employment training, counseling and educational services, through a partnership formed with local youth serving agencies.*
- *Offering resilience to the loss of Value.*
- *As a base from which to fight back against monetary and political injustice.*
- *One building that we as an Occupation can fit into.*
- 

*"As we walked into the back room, where the intentions are to make a kitchen and pantry area, we see that bar, of an early design, has a neon light recessed into the wall. Left hanging from from the ancient light was a Yellow Neon "O". Goose bumps creep through my body knowing that Liberty State Bank was just waiting for us occupiers to find it"*

*We proceeded into the center of the first room to record questions and comments from Michael. Michael is one of the organizers at Occupy Milwaukee, and has talked a lot about Occupying and what it means. This group's effort, of modeling and operating the first self owned structure, of "Occupying", is a way for our movement to grow to a solid steady level and stay "Occupied". Michael speaks about three differences in occupying:*

*"To Occupy means to move into a space or piece of land and be present in it."*

*"Occupancy means to legitimize your presence in the space and establish it under an organized purpose."*

*"Occupation, as in making 'Occupy' one's job, we see is happening in many ways, and is often a continuing focus of action that overlies and precedes the other two"*

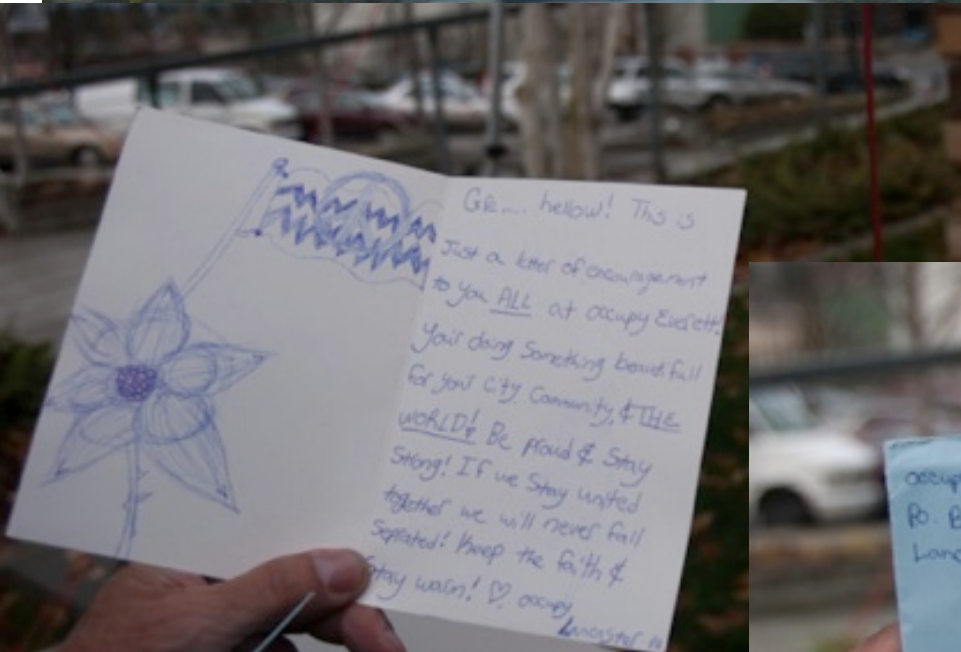
*"The 'Occupation' aspect of these three, ties to the concept of building something that is self-sustaining and destined to be duplicated. We can recognize that it matters quite a lot; that we make it into something that truly helps people to stand up for their rights. To rediscover a self-directed path, leading to prosperity, and come to better balance with life, each other, and with the planet, than what exists in our society right now. We will do this in as many ways as we can possibly find."*





*The Occupy Milwaukee group has found a way to work within the laws, a way for the community to model occupying through the laws, and to allow us to grow as a movement. To work with organizations and neighborhoods, to take back what is rightfully ours and help others. [*

**Editor:** A very significant exposition of the [larger idea by Michael Petit is here.](#)



**Liberty State Bank building  
Milwaukee**

**and Occupy Lancaster sends  
best wishes to Occupy Everett**



## Chapter 2

# How Did We Get into This Mess?

**Jeff Michka November 18<sup>th</sup> Friday 2011**

I think the term long train wreck best describes the journey we have been on as a society since the early 1980s. I don't like to ascribe major societal changes to a single political event, but with the election of Ronald Reagan, following a very turbulent decade in which the Vietnam War ended, and when a president resigned for the first time in this nation's history as a result of public-trust breaking Watergate scandal, the wreck started. Political turmoil in the 70s was followed up by economic turmoil: skyrocketing oil prices and interest rates; then by the social/politically unsettling hostage taking in Iran. When Ronald Reagan came into office with a clear agenda of making our society friendly for business, the real wreck began.

Over the intervening 35 years . . . .

**COOK Report:** It's slipped into a much higher gear than it ever had been before. Outside of the many topical focuses of Occupy, what are some other factors you see that helped cause the train wreck to happen as we see it today?

**Michka:** Well, yes, it has slipped to a higher gear. We have, at one level or another, since 1980, **chipped away in bits and pieces at all the underpinnings of our political society, as well as the very social fabric of our nation and neighborhoods.** One of the selling and talking points of the conservative agenda, especially during the first years of the Reagan administration, was "...*you* were an individual who did not need unions; a solo act who did not need your neighbor next door." Or, "*You* did not need a community of any kind, just a bunker." "*You* can't trust those pesky unions. *You* are the one who must go in on *your* own and negotiate *your* best possible deal with an employer." "*You* are all that matters when it's morning in America!"

And, further, if *you* don't get results in the workplace, don't strike, just pick up your toolbox – virtual, real, or otherwise – and go to the next employer that's going to give *you* the best offer. The only thing that matters is getting **you** ahead, and why after all should *you* have any concern about the person next door? He or she is your competitor. "They" might get what you wanted! And the myth of the day: *you*, as an independent, must understand that only *you* can continue on and become successful.

Another myth: By applying entrepreneurial initiatives on your own behalf, you will become upwardly mobile because, after all, we have this legend of hard-working people raising themselves up by their bootstraps. It's the American way to the "Dream."

But the question always was, even in the worst sunny day of the Reagan Administration: What happens if you aren't wearing any boots? This question was never effectively answered. The Reaganaut answer often forgot the poor, or simply made them appear to be the problem to separate this group from a greater whole.

**COOK Report:** How did the level of public dialogue and trends you speak of affect the electorate?

**Michka:** At the same time, we began to shift away from political party affiliations toward what we began to call the "independent voter". From the 1980s to the present day it quickly became the concern of both political parties as they asked how they would attract the allegiance of the independent voter.

**COOK Report:** The 1980s saw real decline in union membership, too. Was there a connection?

**Michka:** At the same time there was a further shift away from union membership en masse, there was a move away from party affiliations toward what? The "independent voter". In the early 1980s, these so-called independent voters quickly became the concern of both political parties as they figured out how they would attract their allegiance.

Now, in the cold light of reality, the independent voter is everything but independent. These voters are really dependent on everyone else. They don't have an opinion – for the most part – of their own.

It's not like they're sitting down and saying "I'm going to read this piece of legislation," or "I am going to study enough to understand this politician's record based on the very best information I can get my hands on because I am motivated to go this extra mile by my understanding of my duties as a citizen." Now, I can't help laughing, and I would beg to differ with this "alleged reality."

In practice, being an independent voter becomes a perfect excuse not to have to commit to anything. Not to have to commit to a political ideology or ideas. Claiming to be an independent voter so as to not personally have to commit to political concepts, beliefs - became a rationalization for leaving a person's moral compass under the mattress when it comes to social contracts, too.

You are on your own, independent voter! If their employer asks "Are you a Republican or Democrat?" or "Are you one of us or one of them?" Answer? "Well I'm neither. I'm inde-

pendent.” Of course, that is both a non-answer and the safest possible course, which many Americans have opted to pursue. Because? It requires nothing and is *safe*.

**COOK Report:** Were political tactics changed in concert with these social and broad-based political changes in the electorate?

**Michka:** Karl Rove, “Bush’s Brain,” has expounded time and again on manipulating these independents through the use of negative campaigning because it works on the undiscerning, over-stretched and lazy voters.

Rove knew from studying these types of independent voters that most simply voted on a whim, not in-depth look at or love of policies or even facts. It relies on voters saying to themselves, “I’m really impressed by that television commercial I just saw!! I really like the nasty way politician X dissed his opponent and made him look bad!” One reason campaigns require the amount of money they do, and need even more from special interests, is buying “media time” for advertising to reach these independents – and in process, make broadcasters even wealthier than feudal kings. Back to money influences in politics and our social fabric.

Under such dynamics, the concept of the acquiring voter’s allegiance became evermore simple: just feed them more commercials, preferably appealing to their worst prejudices and fears. At the same time, these people are made out to appear as very studied and evenhanded, and, yes, even appear to make “informed decisions” in popular media portrayals. But there’s never been any evidence for this level or type of decision making on the part of “independent voters.” Their decisions are often visceral, hardly academic or studied, but very easily manipulated.

**COOK Report:** So, even by accident, creating the independent voter mentality is part of a greater move to isolate one citizen from another, not just grab a vote?

**Michka:** This “independent voter” kind of thinking isolates these individuals from the rest of their culture and society, by default. They are no longer a part of anything larger than themselves, just as in the workplace, home or neighborhood. I think there have been other problems stemming from this mythology of independence.

## **The theme is “you are on your own”**

**COOK Report:** You commented earlier on trends isolating people, neighborhoods and communities economically and socially. How did this get sold to a wider public?

**Michka:** The end theme was (and is) “you are on your own.” You are this romantic and Ultra-American John Wayne-type of character, moving with heroic independency through the New West, fighting off Cowboys and Indians on each side – all by yourself.

We began by separating ourselves mentally from one another at this level over several decades. After a certain point, the mental separation transitioned to a wider social separation. What is in our social contracts? Looking after each other? Caring for our neighbors and families? "Well, I don't have the time," is a stock answer. Or, worse, "Why care? You are responsible for your life and I'm responsible for my life and mine alone."

**COOK Report:** Who or what entities benefit from all the social, political and economic isolation you describe?

**Michka:** This is really convenient for our statist political organizations and corporations interested in keeping people separate and divided against one another.

It's real old-school "divide and conquer": Keep people apart, and we can manage them. And because those isolated are so busy watching each other, trying to survive day-to-day, they won't notice what goes on in the legislature or boardrooms. Vested power interests always know another principle: When people unite in any cause and act, there is a power shift. That could not and cannot be allowed.

**COOK Report:** Did money in politics and public life also have a bad influence, particularly when combined with the social and political trends you've mentioned here? I know this is a major issue for Occupy, but...

**Michka:** On the public side of life, we have had the influence of ever-increasing amounts of money in politics, resulting in massive deregulation and weakening of other laws citizens took for granted. Many perceive the government as corrupt from the current level of lobbying, particularly at the start of George W. Bush's presidency. Most people couldn't see these changes occur because they were happening behind their backs or behind closed doors.

To note, our open meetings and open records act (Public Disclosure Act) in the State of Washington were the result of a citizen's initiative in 1972, stemming from political scandals of the day involving

## Nine Eleven – Politics of Fear and More Isolation

9/11 was a component of this "slow train wreck," impacting a saggy economy and deeply wounded the American psyche, in addition to the event as an American tragedy. Part of the post post-9/11 fallout became another blow to people's mental well-being, even in their own homes.

On the heels of the presidential election in 2000, decided by the Supreme Court of the United States, hanging chads and missing ballots in Florida were the least of anyone's

concerns by September 12, 2001. Perhaps the 2000 election was set aside, and later ignored, but, nevertheless, it shook many and remained pervasive, if only in background. These two events were another part of the "malaise mix"; another reason to withdraw, and be unsettlingly fearful of things around us. It was both a setting for potential demagogues to dream of, and some peoples' excuse for extreme behavior.

Save one event, the United States had always been free from the fear of attacks by outside powers. Such attacks had never occurred on American soil within most citizens' living memory. Looking back, the aftermath of Pearl Harbor had *some* similarity to 9/11 in ways other than the event being a "sneak attack".

**COOK Report:** But after 9/11, the government's response wasn't the same as it had been to Pearl Harbor.

**Michka:** Pearl Harbor was the only thing comparable to 9/11 within living memory of most Americans. The aftermath of Pearl Harbor – in addition to our entry into WWII – brought a great deal of public hysteria. Part of the hysteria was that Japanese might invade the West Coast. The resulting paranoia caused the roundup of Japanese citizens and their internment in the equivalent of concentration camps. This was done under the signed direction of President Franklin Roosevelt, with the goal of protecting the United States.

Post-9/11, with the broadcast and cable media being accessible 24 x 7 x 365, it was possible for the Bush administration to trot out a former Republican governor of Pennsylvania, on an almost a daily basis, to "warn the American people" that at any moment there might be another attack, without any questions asked. The "Threat Meter" was always high.

As a nation, we are very lucky our government didn't resort to large-scale roundups of Muslims, detaining them in camps. Of course, while FDR declared war on America's enemies and called for strength, courage and sacrifice on the part of the American people, George Bush declared war and told people to "go shopping". It was a confusing picture.

**COOK Report:** Do you feel racial/religious anti-Muslim feelings caused further isolation among those whom we now call the 99%

**Michka:** It really didn't help, and further fractured the bonds traditionally found among neighbors to whom you speak because you live in close proximity to them. It is both hard to trust and feel close to people who may be "enemies," and a potentially bad mindset when dealing with people who are not your enemy. Look at the violent and irrational attacks on Muslims here at home, post 9/11. Anti-Muslim feelings are still part of many people's political thoughts. Tough to stuff the hatred genie back in the bottle.

Legislation like "The Patriot Act", post-9/11, was created on the basis of fear, and a desire in Congress to maintain the social and economic status quo, generally disguised as laws to keep people safe, but clearly at the price of surrendering some of our rights as citizens. The fractious legacies of 9/11 still remain on the books.

At the time, patriotism was used as a club to silence anyone questioning what they were told or heard, even when it was someone's job to question, like the press. The press was used to promote administration agendas with which their corporate media owners gladly complied. With changes in broadcast outlet ownership ratios, enabled by the Telecommunications Act of 1996, coupled with general long-term declines in print press organizations, there were few countervailing voices in conventional media to sound any alarms, or press organizations robust enough to investigate questionable claims being made by the administration and their satellites.

**COOK Report:** So the climate of fear further distracted citizens to the point of ignoring other things going on they would normally hear about through conventional media?

**Michka:** Sure. There was little reporting of what was going in Congress, focus was on Homeland Security Director Tom Ridge proclaiming: "They are going to poison the water supplies," or "Someone is going to fly a Cessna into your apartment building, into your children's school or the shopping mall."

While Congress proclaimed super-patriotism in the light of day, it legislated "at night." Congress continued to chip away at regulations in banking and commerce – weakening or completely doing away the very core of laws and regulations that had kept the US economy relatively stable since the 1930s. Nobody was paying attention.

This went on for years, and the result was that Americans became a very frightened society of increasingly isolated individuals. Combined with these other politically - and economically - convergent issues we've talked about, all of this tore at the very ideas of security and self-confidence crucial to maintaining healthy neighborhoods.

**COOK Report:** As you say, warnings about terror threats persisted for years, factual or otherwise. Were there any other non-economic events contributing to the fear and isolation people felt in the first decade of the century?

**Michka:** The constant terror alerts following 9/11 poured salt in many open wounds. Furthermore, when not pouring salt in the wounds, events seemed to take a very sharp blade and make the wounds bigger. In 2005, there was Hurricane Katrina and its aftermath. This was a clear demonstration to Americans that if a catastrophe happens, you are on your own. We are all alone. Again, another layer of personal social and political isolation.

At best, the billions of dollars spent on “things to keep you safe” seemed totally wasted. The failed federal government response to a natural disaster like Hurricane Katrina seemed completely contradictory to any claims the nation was “prepared for the worst”. It’s hard for people to rationalize giving up rights and freedoms to “remain safe,” ala Dostoevsky’s “Grand Inquisitor” on one hand, spend billions to “keep safe”, then watch a major natural disaster occur with a questioningly bungled non-response. I do think many looked at Katrina and at least thought, “What if this was The Big Attack? A terrorist-planted A-bomb can cause more loss of life and damage than a hurricane...what gives?” Maybe it was just thinking, “What if it’s my neighborhood, not the 9<sup>th</sup> Ward?” It’s the contradictions that get to everyone in the end, whether acknowledged or not.

**COOK Report:** Did 9/11 and Katrina further exacerbate individual economic problems of the day, too? The Tech Bubble burst not long before 9/11.

**Michka:** September 11, 2001 and Hurricane Katrina had further changed a wild and confused social and political landscape in our nation. But yes, these two events came on the heels of the bursting tech bubble and compounded the impacts of other convergent economic stresses. Low interest allowed speculators to bid up asset prices and banks to shovel out unprecedented amounts of debt inducing credit out the door.

We suddenly found that there was (and still is!) no more money available from our hard labor: wage and benefit cuts became the norm. If you wanted to keep your job, many employers said forcefully, “Take a wage cut,” or “wage freeze.” So with historically low interest rates, people borrowed with an eye to the future when “things would be better.” Simple result: Personal debt, and home as ATM card. “Lifestyle” was all-important popular culture and many of us found that we could maintain appearances by borrowing. Second mortgages were largely responsible for the economic recovery after 9/11.

At the same time, boardroom and CEO compensation soared in the, beginning a decade or two before 9/11 and Katrina. Middle-class workers had only the merest illusion of upward fiscal mobility, nurtured exclusively by appearances and advertising. Lower income people slipped further down the fiscal ladder.

**COOK Report:** The American Dream, by your narrative, was over before the 2008 elections. Yet many people acted as though this were not the case.

**Michka:** Most people, during the middle of the decade, faced more and more pressure coming at them from every level and direction. Everything taken for granted in The American Dream was breaking or had broken down. But conventional media focus seemed to be on, “Breaking news! They have rolled a huge ball of aluminum foil out on the White House lawn!”



When the housing bubble blew up (burst is too polite) in 2008, the resulting fiscal turmoil went hand-in-hand with continued job loss and wage devaluation, property devaluation and a seemingly paralyzed government. The nonresponses of the bought-and-paid-for government again slammed people where they lived with often devastating results: Their homes and neighborhoods. It was only in 2008 it became "breaking news."

**COOK Report:** Some claim many of the trends and events you speak of were, somehow, a conspiracy, whether it was 9/11, Katrina response, or even passage of laws like the Patriot Act. Have all the events leading up to Occupy been some type of conspiracy as some contend?

**Michka:** Nope. No Grassy Knoll here. There was no conspiracy which caused all we've discussed to happen. No group of people sat down at any one time or any one place and said, "Now were going do this, then we'll do that." It was just a convergence of multiple events and trends: lobbyist money, bad policy, bad planning, bad ideas and simple greed of elected and corporate interests. Along with a fearful, isolated and lazy electorate, *all* were factors led us to where our society-in-crisis stands now. You cannot blame "The Illuminati" or "International Islamist Conspiracy". The latter being simply another retread of old public fear-mongering.

**COOK Report:** If not a so-called conspiracy in Washington DC among elected officials, particularly in House and Senate, what might it have been?

**Michka:** Perhaps it was simple self-interest on the part of these legislators. We have arrived at the point in time where no matter on which side of the aisle you sit, you have to basically be a millionaire just to participate in the political process at a federal level.

Then, there are the lobbyists, many former members of Congress or former staffers handing out wads of cash to finance campaigns, constantly sitting on elected official's desks until the official gives into their client point of view. Now there's the "Citizens United" decision by the Supremes which has taken

the lid off democratic elections processes by saying that campaign spending limits were an unconstitutional restriction on the corporation's right as "person" to free speech. I think this can only lead to real people (persons?) believing, at best, more money equals more free speech, and that they, a simple citizen, doesn't have that kind of money to speak up effectively.

Occupy has brought attention and some focus on the long-term problem of money in politics and the public life of governance. Again, I'll let Occupy speak for itself here. Focus on "Citizens United" is a good start for Occupy when it comes to money in politics, but just a start.

But it's worthy to note and remember that 47% of serving senators are millionaires. Of course, millionaires are the only ones who can afford to run an election under these conditions, or with massive infusions of special-interest cash. The amount of money we're spending on just federal elections now could feed 2 or 3 African nations for years. But what is the electorate getting in return? Nothing. So, here's something else creating unease without an outlet. This also tends to make people tend to focus inward; creating another layer of isolation, now coupled with institutional distrust, and perhaps deciding not to participate in elections, etc.

**COOK Report:** You've described peoples' mental and psychological isolation as a major result of "the slow train wreck". Has this led to real isolation and a lack of acknowledgment of substantive economic, social and political concerns? If so, why?

**Michka:** Yes. I feel we are isolated in a physical sense, too. Many don't even know who their next door neighbor is anymore. We don't didn't speak to them, or call them by name with a simple wave. We don't have them as guests in our homes, or even talk to them across the fence anymore. Instead, there may be just slumped shoulders and averted gazes. Nobody wanted to speak up.

Why? Well, "they" – our neighbors – "...might not be the kind of people we would want to speak to." As I've noted, there was ample encouragement for these things to occur. Americans had become afraid. As opposed to expressing it – for many reasons – the building anger over obvious contradictions at every level was internalized with the rest. Moreover, why waste time on other people who may lose their homes and disappear. We don't like seeing this sort of thing, and tend to look aside, knowing "I could be next." Pretty natural human reaction.

**COOK Report:** You've woven a pretty bleak picture of people's reactions and responses to dire events we've experienced as a nation. Surely there were some exceptions...

**Michka:** It would be unfair and unrealistic to say "this was everyone", much like acknowledging it wasn't every corporation, bank or special interest that caused or contributed to these convergent economic, social or political trends and events. Nevertheless, there was enough substance and momentum, as is, among ALL parties for it to take hold and become proverbial business as usual.

Some people in neighborhoods all across the United States did manage to continue to meet and carry on conversations about their futures as neighborhoods; hold their neighbors and neighborhoods in esteem. Unfortunately, this way of life was becoming increasingly inaccessible to the majority of Americans. What once had been a majority was now a minority as we have seen, particularly over the last several years. The train wreck was slow, and we often forget the "train wreck timeline." It's a long one. Now, when you have lost or face losing your home – security and sense of place – you've become a train wreck

victim, literally. But, over years, people's ability to participate at a neighborhood level was reduced.

Signs were there during the 1990s. As a neighbor-participant, you more frequently heard from other neighbors: "It's way too hard to do this neighborhood thing," or "I'm working 60 hours a week;" "I don't see my family anymore;" "If I don't wind up taking my children to all these structured activities they will never have the chance to get ahead in life;" "...they'll never have a good job;" "...they'll never be successful like my mom and dad."

Of course, as with all groups relying on volunteers, like neighborhood groups, hearing things like this are reasonably frequent in the best of times. When it became the worst of times, these statements became a norm. Pretty soon, like in a wider political and social sense, even neighborhood groups were left only with extremes.

## Occupy as an "American Awakening"

**COOK Report:** In September 2010, we saw the birth of the Occupy Movement. In the movement manifestos, many of the causes for the symptoms ailing society you are describing have been brought to the forefront. How does this movement change the trends and phenomena we've been talking about?

**Michka:** Definitely! If nothing else, it's a starting point point. Occupy - Occupy Wall Street - is a movement giving voice to massive frustration with obvious disparities and contradictions: economic, social and political. Americans have watched others around the world pick themselves up, connect and act, often in the last venue available, the streets. In doing so, proclaiming their desires and needs for more than what has become business as usual at the expense of average people, regardless of where they live or what they do.

In America, Occupy has, even without "specifics" pundits and critics seem to demand, drawn laser focus on wide-ranging issues and concerns remaining unaddressed by those the people trusted to represent their interests, yet act, speak and respond in completely the opposite manner.

Again, this movement in America is just a start. Yet, it's a good start if we, as a nation, wish to have a chance for real opportunity and a small measure of security in their lives which has been absent so long.

**COOK Report:** It seems Occupy might be retrenching as winter closes in. Critics are saying it's over, and Occupy was just a brief outburst by a few wanting what the wealthy have, and aren't willing to work for change. Is there any truth to this?

**Michka:** Not really. Remember, the operative part of "slow train wreck" isn't just the word wreck, but slow. It's taken awhile to get to this point. It will take a while to change,

too. It wasn't by accident that political events like the repeal of the 1933 Banking Act (Glass-Steagall) occurred. Liberals and progressives need to remember some recent history: It wasn't bad ol' GW Bush who signed the bill repealing a critical banking law, it was Bill Clinton toward the end of his presidency in 1999, and during "the very best of times" we've almost forgotten.

It will take time to reclaim many of the legislative imperatives that stood us in good stead as a nation. Banking and financial reforms, as defined by [the Occupy manifesto](#), will be a complex rework. Re-imposing legislation is much tougher than passing good legislation to begin with. We are supposed to be a nation of laws, so when the wealthy and powerful choose to break, ignore or buy the rule of law, we must respond. Our elected officials at state and federal levels sit by and do not act. Consequently Occupy has legs for change.

It's important to remember regulatory rollbacks were made and approved for a reason, demanded and delivered with deliberation. Special interests, again regardless of specific interests, wanted any change to benefit *them*, not average citizens, the nation, or our futures. It was "all about them." They will not let go easily of all their wealth, privilege and power.

Occupy has confounded old political hands and pundits by not having a leadership that can be divided and bought off – true old school politics. Occupy has not made specific demands that can be manipulated like conventional "communities of interest" which are all independently bought off and silenced. This too, has how power structures have fought off opponents and demands for change, whether it's simple "cease and desist," or being placed under the control of law and governance, instead of over-arching self-interest and greed.

Occupy has confounded and frustrated conventional media by not being a freak show in funny hats that makes such great television and are a news directors dream. There's a wide demographic mix of people joining in.

**COOK Report:** So you feel Occupy is more than a protest movement?

Occupy is a spark plug. Occupy provides energy and personal focus missing from our civil landscape and discourse for a very long time.

The "good news" is that we are now forced quite literally to confront our problems face-to-face. Whether or not we do it individually, with our neighbors, or along with millions of other people in this country, we have an opportunity for unprecedented, positive change.

Occupy draws attention to hopes that have not been met; hopes and dreams denied in a frenzy of greed and corruption. Again, it's a starting point.

My hope – and I do believe I can hope a bit – is that people will recognize their roles in wider public life, and learn to strike a balance between self-interest and greater good. Occupy provides context for that thinking.

**COOK Report:** Is Occupy a cure for the social malaise you’ve described in our discussion, or is it another symptom?

**Michka:** Part of the situation with the Occupy movement, and just read people’s comments, or read their blogs, is to see people say over and over again “Gee, I thought I was the only one feeling this way and only one seeing a social collapse.” It’s good to have company, even in the worst crisis. The Persian poet Sadi, in one of his parables said: “Better to be in chains with friends than with strangers in a garden.” Because of Occupy, we at least know who our friends are.

It’s as though a lid has suddenly been taken off. A major component of “isolated thinking” has been taken away. People were not alone in sensing the grievous and profound unfairness and contradictions in their lives. Those wanting a divided nation were only too quick to insist, “It’s just you, buddy. Everyone else is just fine.” No they weren’t. 1% of them were “just fine” having purchased the very best government money could buy, and average people could not afford.

My other hope is that as Occupy grows and matures, it will be a ***spark plug to re-energize our neighborhoods, and give people a reason to be active, or become active again right where they live.***

**COOK Report:** Looking behind the curtain, Occupy and “people power movements” elsewhere in the World have used Facebook and Twitter as organizing tools to bring people to the movement and spread the word using new media and the Internet. Do you feel social media will help connect people at a neighborhood level?

**Michka:** Despite Facebook and Twitters elevation to “The” way to communicate for Occupy and others reclaiming their futures, I have some reservations. Certainly, both are devices ostensibly to connect and network, and the term “social” makes them warm and fuzzy. However, I don’t see these specific *tools* directly benefiting neighborhoods per se.

First of all, Facebook and Twitter aren’t nice, non-governmental non-profit organizations. They are businesses. They are Big Businesses in every sense of the words, with aims to make wopping profits for their owners and, if public corps, make profits for their stockholders.

They may have been the most accessible and widely deployed communication and networking tools, particularly in very repressive environments, but they were a godsend at the time.

But what will happen if the network tap is shut off? Will Occupy fade because it can't Tweet? Will meetings and movement stop because Facebook won't let them post? It's likely, and I'd say more than likely both businesses will pull the plug, or be forced to. What happens then?

I don't have a Facebook account and I don't Twitter. Why not? And I have actually had to answer these questions to prospective employers. First of all – what's my need? I don't have a *need* for either of those mechanisms. I have other tools at my disposal to accomplish the same end results without the interference and ads.

**COOK Report:** If you're connected in your own neighborhood, you don't need them. On the other hand, Twitter is best used for real-time communication in situations of rapidly changing conditions. Or by people to point out the location of what is often complex and detailed information to associates who would be likely to find it useful but may not be aware of it.

**Michka:** To a great degree, that's right. That is why Twitter has been successfully used by Occupy and other Occupy movements elsewhere in the World, to this point.

The other side of this is, from my perspective, we need the interpersonal and physical contact between people and neighbors to solidify and strengthen our commonalities and bonds that are the framework of social contracts. Our electronic and social media tools should support this.

Although important to network widely, for so many reasons, I've watched online networking being used as a substitute for "just getting out there." Getting out there is a tad more work than posting to your Facebook account. I do feel overuse and constant hovering around Facebook and Twitter is a distraction past the point of simple communication.

That said, I also believe social networking concepts, and even social networking tools similar in purpose and function to Facebook and Twitter should be part of any neighborhood organization's toolbox, but not a substitute for physical interaction and presence.

I get the impression too many people – many supporting Occupy – are learning the lessons of physical presence in exploring and implementing public discourse and protest. That's a trend away from a trend.

We need tools to accomplish tasks in our neighborhoods, locally and changes in a wider sense. I feel we need to create tools to meet those needs, without the commercial trappings, need to turn huge profits, and not turn users into constant targets for sales and shopping opportunities.

We, as information workers and IT professionals, have outstanding opportunities to make new tools that truly serve users, not serve-up users to corporate interests.

**COOK Report:** Are there any other outstanding reasons to make the better tools for network communication and interconnecting widely dispersed communities?

**Michka:** There are good reasons to remake and re-task electronic tools. We need other means of electronic communication that don't require me or anyone else, as in the case of Facebook, to give up my privacy rights and control of my personal information as an individual to a default social registry that is totally unregulated. Other problems arise in these venues, too. For example, how many millions of users does Facebook have under the age of 18 in violation of their own terms-of-service?

Is Facebook actively policing its own accounts for requirements of their own terms of service when it comes to age? No. It's not to their advantage to do so because all those pop-up ads that you see there aren't geared to people between the ages of 35 and 50. Those ads are geared to people between the ages of 14 and 34. So if we don't have customers for our advertisers under the age of 18, we just cut out millions of potential customers for our advertisers and cut our potential revenues.

**COOK Report:** Your views fly in the face of conventional thinking and use of existing social media. You seem to say social media is a potential problem, not a solution.

**Michka:** Facebook I think of as less than a tool and more a simple social invention, designed to be a service and make a dollar. In a general Facebook is a very narcissistic mechanism.

Obviously, you can't say that about everyone using it, but again let's take a look at why it came about. It was created for a group of people who wanted to show their best faces and interconnect and network with other "best faces", not change the world or stand up to globalized capitalism run amuck. It is, essentially, a personal advertising mechanism. Do I need that level of personal advertisement? And to what end? Am I a business or service? We need other electronic tools: Open-sourced, benign in intent, elegant in execution and, most importantly, not the proprietary property of a disinterested, greedy corporation.

## **Another Occupy Issue: Reform The Telecom Act of 1996?**

**COOK Report:** We've kept away from rehashing most of Occupy manifesto, but if you had something to add, past the current list of concerns, what would it be?

**Michka:** I'd like to revisit and reform major parts the Telecommunications Act of 1996. One of the saddest things occurring to dilute public dialog in the last 15 years was passage of the Act. So much remains unresolved, like rulemaking at FCC, even more arcane



and industry-centric than ever before. There's so much needing reform within the Act, you almost don't know where to start.

But in the heady days of the mid 90s, many IT professionals thought the Act was going to make everything wonderful. There would be all this competition and job growth because people will go out and start their own Internet service provider operations, so giving up "conventional media" was no big deal as a trade-off. It was thought people would go out and start their own satellite-TV companies. They will string wires on poles to start their own cable companies. Why? "Because all this competition is going to happen." It didn't, and quite the contrary: We had massive consolidation.

I believe industry consolidation in a few corporate hands has harmed and perverted the role of broadcast journalism in building the public and civil dialog, and tended to trivialize social disparities and social/economic conflicts.

**COOK Report:** Is there any specific part of the Telcomm Act you'd like to see changed?

**Michka:** There were provisions on percentage media ownership altered from the wording and intent, key public interest elements in the Communications Act of 1934. The '96 Act allows a single corporate entity to control massive market shares – in some cases, 90% - of television, radio and print, within a single media market or nation-wide, under some conditions.

The 1934 Telecommunications Act was, in part, constructed to prevent any one organization or individual from having a complete monopoly in media spread across the United States, or in any single market area. Of course then the dominant media was radio and radio networks broadcasted coast to coast. Good cites for some social aspects/impacts and legislative rationale of the '34 Act are Eric Barnouw's "A Tower in Babel," or Robert McChesney's "Telecommunications, Mass Media & Democracy."

In 1934, conventional legislative wisdom said it would be a very bad idea if any one individual or corporation wound up controlling any one market in the United States with dominant media coverage. It was deemed dangerous for someone to have control of both radio and print across the country because someone could become a demagogue, using radio as a platform, with a citizenry that was not overly discerning.

Now, of course, we have a very rich history of the way in which corporations like Verizon, AT&T, not to mention the former Baby Bell entities, perform when regulations or rules are imposed; in what they do in front of the FCC, as well as behind the curtains at FCC and in Congress, to the point of the behaviors becoming a time-honored tradition. They get the very best rules and legislation money can buy, just like the rest of the 1%, and a very common maxim in political campaigning has been, and still is, "Never say 'No' to a telco in an election year." These days, I think it has become "Never say 'No' to a telco," period.

As a result of the 1996 act, we set ourselves up with changes in ownership ratios in markets all across the United States so that owners of small independent TV stations, radios stations and other publications could be sold to larger organizations without restriction, even if they already owned another media outlet. The only limit was not more than 90% of the market share. That's almost everyone. Who gets the remaining 10%?

A corporate entity located in New York City can own almost every broadcast entity in the market of Seattle, along with owning a Seattle's newspapers. What is there to stop a corporate owner from - you might want to ask - exercising a temptation to editorially mess around with the news content of stations and print blanketing these areas? It is profound chance to control what people see, hear and read from afar without one whit of accountability.

It is a profound change in what Americans knew as "a free press," bottom line. You are going to only see and hear information useful to the owner or advertisers, which is not necessarily information that is in the interest of the general public. Any 1930s notion of "The airwaves are owned by the people" has been tossed.

## Neighborhoods

**COOK Report:** MoveOn still thinks they can recapture the American dream. I think they're wrong. But would you comment on that?

**Michka:** Depends, I suppose, on how you define "The American Dream," obviously. MoveOn has its point of view. However, whatever comes out of a "post-Occupy" environment, is a new American Dream that will have to include things like alternate economies and alternate economic opportunities, healthcare, common care and a list a mile long.

We'll need to reexamine how we live and work together, building new social contracts between us all. I still fall back to neighborhoods as a major vehicle for these changes, as well as a base to advocate *for* change, then holding institutions near and far to accountability and need to fulfill institutional responsibilities. Another big plus for people not well-versed in public process to make changes and reforms is that neighborhoods don't dwarf individuals with scale. Neighborhoods are physical spaces people can easily grasp and manage.

Neighborhoods are also readily available places for change. Use your search media of choice and put in the phrase "city of neighborhoods." See what you come up with. "We are a city of neighborhoods." This is the most common phrase you see on municipal websites with a Department of Neighborhoods.

Of course every city is a city of neighborhoods. After all what is a city? Now everyone wants to make this claim. Find a Fortune 500 company that doesn't say we are building cities of neighborhoods nationwide. It is a well-sold idea. It's big business. But ask yourself what is the execution? There isn't any. And even worse countervailing voices are not to be heard.

**COOK Report:** Do you think neighborhoods provide a place for alternative education efforts, and non-traditional housing or business settings?

**Michka:** Jeff Sterling spoke quite well about his involvement in alternative education via the Clearwater School, located hand-in-hand with a co-housing cooperative. Both of these projects sit within an existing suburban neighborhood, and it appears to me the alternatives fit in quite well with "the conventional."

There's something else here worthy of mention regarding future roles for neighborhood organizations. This does connect directly back to Occupy. One major social and economic crisis faced directly by neighborhoods, right in these neighborhoods, is the mortgage/housing crisis. Few neighborhoods have been spared the angst of foreclosed properties, vacant homes and businesses. IF – and it's still a big if – solutions to this trend are found, we will still be faced with a huge inventory of vacant spaces and buildings.

I can envision active neighbors with plans and ideas assuming ownership of these properties as, for example, a co-op. The vacant structures used to house neighborhood-based businesses, exchanges, telecommuting centers, or even house facilities for neighborhood-level connectivity. All of these projects could directly benefit people right where they live, utilizing resources at their fingertips.

It will take personal will, organization, creative thinking and creative applications to support activities and efforts I've mentioned. It is merely the tip of a neighborhood organizational iceberg that truly could benefit us **AT a neighborhood level**, and in conjunction with wider efforts, our society as a whole.

**COOK Report:** If nothing else, do you see neighborhoods as incubators for participatory democracy and learning centers for citizenship? Places to train, for example, new generations of activists?

**Michka:** I do. Neighborhood organizing has always been a learning experience for anyone taking the time to be involved. Many elected officials and other activists had their start working to improve and organize their own neighborhoods, and took it from there. An excellent example is Senator Patty Murray (D-WA). When she first ran for state office a couple of decades ago, she was known as "The Mom in Tennis Shoes" because of her neighborhood activism.

I see a need right now. Occupy has attracted attention to what people can do working together collectively to make change, as well as expressing a profound need for change. How many can take this energy and convert it to working where they'll see results they can actually grasp? If there's a place to start, it's in a neighborhood.

We have missed two generations of people in this country that don't have a sense of citizenship; that don't have a sense of activism. Whose fault is this? It's no one's fault save our own as informed activists. This must change, and I believe, it is. People are hungering for more knowledge, insight and need the tools to take their personal concerns to the logical step.

**COOK Report:** What about "democracy schools?"

**Michka:** Democracy schools are really interesting. They are definitely a step in the right direction, once again teaching people how to be citizens.

Think about what happens when an immigrant becomes a citizen of the United States. They have to undergo an educational process that teaches them what they need to know in order to exercise the rights and responsibilities of citizenship. Most people who are new American citizens know more about our government and how to be a citizen than those born here.

There are many native-born citizens, who may live in their state capital, and yet not even know what a state capital is: "Well I saw some fancy buildings but I had no idea what they are for." The problems are basic. For example: not being able to understand that we have three branches of government, let alone the concept of checks and balances. This goes back to this convergence of problems that marked the three decades that have elapsed since the beginning of Reaganism, as well as changes in school curriculums.

It is all too easy to blame teachers, but let us be fair and blame ourselves as well. We, citizens, allowed our schools to become what they have. No Child Left Behind is an abomination. I've always laughed at bill titles, the "public" essence of the legislation we hear bantered about on nightly news. I've always thought the bill title is normally means the legislation's content is directly opposite what the title claims.

Yes, in this case all children are left behind because like Washington State's version, Washington Assessment for Student Learning (WASL) supposedly ensures every student has a certain level of learning that is assessed by a test. It is *not* a Scholastic Aptitude Test, but in my opinion, a broad-based assessment of how much they've memorized.

**COOK Report:** So the schools teach to the test and whoever writes the test controls what is taught in the schools?

**Michka:** That's how it has worked out. The carrot/stick for public school districts is, if students do well on the test, school district gets more funding or resources. If a school's students do poorly, you will lose funding. Pressure on teachers and district administrators, needless to say, is immense. So teaching anything outside the test is deemed unaffordable.

*That's not learning. It's learning only how to take a test. It is not learning for the sake of learning or learning to acquire knowledge for the sake of exploring a specific application or new ideas. This means we are mass-producing people who not only have no sense of history or citizenship, but that their level of coping is really poor because, while they may have been taught a skill set, they have not been taught how to use that skill set in any given practical context.*

If citizens cannot make educational reforms at federal and state levels to make sure we are really turning out an educated, discerning populace, then it will become important to provide alternatives and, again, alternative opportunities.

## **The Tipping Point of another Economic Technology Based Transition**

**COOK Report:** Given the expression of a broad-based need to make economic, political and social change, don't you think all these reforms are almost impossible to make? Where will Americans get the will and political power to make them, whether it's education, technology or the economy?

**Michka:** Here is where, I feel, we have a "leg up" on other societies and nations. America has a long history of facing up to social and economic changes brought about by technological advancement. And in making these changes, stimulated and encouraged even greater social change. For example, early in the last century we had social and economic situations very similar to what we have now. There were extreme disparities between wealthy and poor in a society changing from a rural/agricultural into an industrial economy. The huge influx of immigrants came to feed the new industrial machine.

As noted by David Traxel in "[Crusader Nation: America in Peace and War -1898-1920](#)," The Republican Party was absolutely terrified of Theodore Roosevelt's presidency. Roosevelt was not a screaming liberal by any definition, but because he was not sufficiently pro-industry and pro capital, he scared the 1% of his day by suggesting minimal financial and social reforms. If you were to take away the names and dates, I don't believe that you could wind up telling the difference between comments that were made during the period between 1904 and 1911, and the period that we have just lived through from 2000 to 2011.

Finally, between 1909 in 1911 government stepped in, breaking up industrial trusts and putting in basic regulations to end the kinds of financial frauds that were occurring on Wall Street that every 2 or 3 years, bringing America in and out of panics and recessions that had become routine since 1880. Many of the reasons for these financial swings, and the

social price paid for them are eerily similar to those being focuses on by Occupy. But still, we had no 40 hour workweek. There was no federal minimum wage. People worked in sweatshops where they were basically treated as slaves. Child labor was a norm, not an exception. Then, in 1911, something happened to tip the social and economic equation.

March 2011 was the 100th anniversary of the [Triangle Shirtwaist Factory fire](#) in lower Manhattan. At the time lower Manhattan was actually rather diverse and characteristics of the people who lived there. Wealthy and poor were not as widely physically separated as they are now, and when the fire occurred, factory doors locked to "prevent employee theft, bodies piled up on the streets. Most of the victims were women. There were thousands of people from all walks of life who observed the horror. After the fire, tens of thousands of New Yorkers literally rose up and marched in the streets to bury these people and protest the reasons these women died.

These very same workers had, the year before in 1910, been involved in a very long and wide-ranging strike in the garment industry in New York City over wages and working conditions. Workers won, getting an unheard-of day off work each week, and the right to a 40 hour workweek. Ironically, the workers at Triangle Shirtwaist, because the owners were leading anti-union efforts, the workers could not unionize; they did not win any right to safety in the workplace.

Due to the widespread public outrage, thousands marching in New York streets, the governor of New York appointed commission to investigate. By 1913, the New York State Assembly had passed over 30 laws addressing workplace inequities and safety issues based on commission findings. These included minimum wage laws, maximum work-week hours, workplace safety and health conditions, stiffened child labor laws and much more over time. New York State became a model for workplace safety and worker's rights.

In the atmosphere of reform during the years that followed, other social safety nets like worker's compensation were enacted into law in New York. By the time Franklin Roosevelt became President, most of the New Deal laws, including banking and financial regulations passed during first big reform period from 1916 to 1920, were already long in place for many years at a state level. Consequently, Franklin Roosevelt had the models, and then in a time of need, reworked the language, focused legislative intent, and imposed them on the entire nation at the federal level.

During the early part of the 20<sup>th</sup> Century, then during the 1930s, government, prompted by public outrage and open protest, stepped in and did *something* to prevent the problems from occurring again and again. Now, in 2011 here is the problem: ***This time the government hasn't stepped in, at least not yet, save bailing out the institutions causing the crisis we now face.***

America, as a nation, has historical imperatives as example. As a nation, we can prompt and demand change, but the change demanded must be informed, active and persistent. This is something we can proudly say is in our heritage as a nation. It is in American's blood, whether they know it or not.

Neighborhoods have the potential to be their own lobbyists for change at local and state levels. When succeeding, perhaps we create ideas others can take and apply elsewhere, or use as the basis for national policies: "See? It works here...why not..."

## The Neighborhood as Ground Zero

**COOK Report:** But you're talking about major legislation and social change on a national level. What role do neighborhoods have in any of this, really? Isn't Occupy a way to bring about the change you talk about, historically or otherwise?

**Michka:** Again, as a nation, we have had a tradition of change springing up from our neighborhoods. Forward progress and reform has always fallen back to the actions taken locally by people living in their own communities.

While a neighborhood may not be able to control the economic future of this nation, they may be able to control their own economic future, at least among themselves for their own well-being and safety. From our neighborhoods we derive a sense of home, a sense of belonging and sense of the larger place we inhabit. But we are losing this sense of place through people losing their homes. And they are losing their identities as people who have belonged over time to a rooted location. We must grab that back.

**COOK Report:** Who is best suited to do this?

**Michka:** Well, the people who are still living in those neighborhoods are best suited. They have to start taking their own futures back, and have a sense of what needs to change right around them. I think this where neighborhood organizations and neighborhood organizing are going to have great value over the coming years.

**COOK Report:** Can you give me an idea of what you did in '97 and '98 with this handbook?

**Michka:** I co-authored and produced the handbook with Chris Leman, then chair of a state-wide community umbrella organization, Coalition of Washington Communities. The primary goal of the handbook was to provide people with tools allowing them to create their own neighborhood organizations in places those organizations did not exist, or to strengthen existing organizations.



The idea being that here's how you go about the process; here are the kind of things that you have to do; here are the reasons why, but more to the point here is the menu of things that you can do to make it happen. For example, how to incorporate a neighborhood organization; how to choose tax status 501©(3) or 501© 8. What organizational direction is suitable? Should this organization even exist? We drew on our own experiences, and those experiences of others we worked with in the Coalition.

The sponsor of this program, Brian Derdowski (R) from Eastern King County, had been a neighborhood activist before he became a council member.

**COOK Report:** Do you think this could get far in a Move on context?

**Michka:** Sure, if that's what MoveOn wants to do. Neighborhood organizations can "get far" in almost every context. One of the things you have to remember is we all live in a neighborhood. Even those that are homeless live someplace, and the someplace is a neighborhood, so it's "all inclusive." It is perhaps the one common factor that we all share. We have built-in places of common interest - where we live. In the longer you live in a place, sooner or later you're going to want to make that place a little better.

That requires getting together with other people and that was what we were trying to stimulate. How do you do that? How do you make these things work? This is where we have to go. As mentioned earlier, neighborhoods are easy to conceptually manage - the idea of my neighborhood, where I live. It is an easy place to start. And more importantly the people doing it will be most immediately able to see the rewards of their work, as we've already discussed.

For example, getting a park built where a vacant lot once stood, an alley clogged with debris cleaned up. This is a substantive improvement in the quality of their lives in general. It brings people together in a collective sense while planning and doing the work. It reminds people of the simple wisdom embodied in *Proverbs 8:17* "Better a neighbor nearby than a brother far off."

These are the kind of constant reinforcements people need to better conduct their lives as active citizens in a democracy. It allows citizens to learn how to take control of issues, and by doing so, allows them to understand how they can achieve better control over their own destinies, even though sometimes it appears that such control is out of their hands.

It gives neighbors a sense of something that they can accomplish.

The old tune was, "I'd love to change the world." Well, why don't you just start right at home? Recognizing that change at home may well have implications worldwide. And if it doesn't, the effort extended will still benefit you and the people living around you. Communicate it, and maybe others can use what your neighborhood could not.

**COOK Report:** But if we understand what we have now, and what may be coming our way, could what we're talking about get any worse? Perhaps it could be much better?

**Michka:** Yes, it's this level of conversation: this is what we need to discuss, come to consensus, then act. And this is where I have hope. I think people have woken up from a very long nap. ***When you live a life of fear it does take a toll on your humanity, too. We have lived such a life for far too long for very little reason.***

Plus I believe that neighborhoods, the commonalities that people automatically share by living in neighborhoods, can lead to situations where people can recognize the value in things like alternative economies, as mentioned earlier. People can better define how we're living in a very scarce resource - artificial or otherwise - economy. If we are in an age of scarcity, then a key question is how can we live our lives in a way that benefit us and others by using less, and receiving more in return?

You cannot wind up putting a dollar value of a good relationship with the guy that lives next door, or even with the 50 people that live all around you. A dollar value could not possibly be placed on this. We are going to have to look at economies of smaller scale. The information that Internet technologies are a vehicle for information people can be made best use of at a neighborhood scale. A very fertile transfer of ideas is possible *and* necessary.

Basically, I see neighborhoods becoming part of an American Renaissance; a nucleus for rebuilding our society. We do need backbone and conduit.

**COOK Report:** Is there a tool that might facilitate one's ability to go through a neighborhood and take an inventory of the people who live there from the point of view of their occupations their interests their skills—an inventory of the human capital of the neighborhood?

**Michka:** Your question puts a smile on my face. Yes, there are tools like this, and more in development.

As part of interest shown by some Occupy members, I'm in the process of reworking, updating and revising the "Neighborhood Organizations: A Handbook," mentioned earlier in this interview. Since Chris and I wrote "Neighborhood Organizations," a lot has changed, needless to say, over the intervening years. Yet the core of the handbook is solid, to the point and a usable tool for creating and maintaining neighborhood organizations.

One chapter in the old publication dealt with neighborhood inventories going far beyond just inventorying human assets and skills. The inventory we suggested included the physical assets, too. In the new revision, I've expanded the inventory. Furthermore, since the new addition of "Neighborhood Organizing" will be published in several different

formats, the electronic version will have a “universal inventory” which can be quickly customized to fit any neighborhood configuration and asset base.

In addition, other parts of the new handbook will contain checklists and other management tools for non-profits and neighborhood groups in both print and electronic formats. Electronic formats will be updated and maintained over time, post publication. Content will be updated to reflect changes in tax codes affecting non-profit entities, and other areas of the handbook are being revised to reflect differences in state laws regarding non-profits, co-ops and even fraternal organization models.

There’s a lot to be done in our neighborhoods now, and we need all the tools and resources we can apply to the task at hand. That basic task is organizing. Once a person understands organizing and the mechanical/legal steps necessary, the user and his neighbors can apply their creativity, insights and needs without reinventing any wheels. We’re looking at April, 2012 as the first publication date, and go onward from there.



**Jeffrey Michka** is a technical writer and engineering information specialist holding other IT positions for many private sector businesses; he has also been a long-term broadcaster in commercial and noncommercial/community radio, including program cohost and producer of “Technical Difficulties: People, Power and Information,” on NW public radio. He was active in developing information policy for citizen organizations, and improving public access to public records in electronic form as founder and project director of Washington Community InfoSource BBS network (WCIS), Citizen

Online and as a lobbyist for public-interest/citizen organizations. Michka cofounded several community and public-interest organizations in Washington State; former Secretary and board member of the Coalition of Washington Communities (CWC). Jeff currently resides near Seattle, WA

**Occupy Everett to the right**





## Chapter 3

# Intentional Communities

## *The Clearwater School*



**Sterling:** I think that Clearwater is a good example of an intentional community as defined by people who decide to share more of their lives together. This sharing can be determined both by how their kids are being schooled and by their living environment where their houses and where they will share evening meals or where they will have a community campus – in other words where at least a good part of the infrastructure is held by the group as a whole rather than by individual property owners.

[The Clearwater School](#) itself came out of the Sudbury Valley model in Boston where the kids learn a small “d” democracy and how to run a school and community while respecting the values of others. The students tend to teach each other and learn how to do things together rather than participate in any directed curriculum.

As one of the women was saying it required a kind of leap of faith to believe that your children are not going to miss out on the kind of schooling necessary to get a good job. Neverthe-



**Jeff Sterling talks with Stephanie Sarantos outside the Clearwater school in mid November 2011**

less, the belief of many people in this school is that you should let kids focus first and foremost on growing up and become a decent human being while following and being able to learn things that they

are really passionate about rather than trying to shove some externally formed body of knowledge down their throats.

**COOK Report:**

What did not exist 10 years ago and maybe not even 5 years ago were some of the kind of all-encompassing environmental and world building



open-ended collaborative simulations otherwise known as computer games that I've seen the kids deeply involved with during the last few days?



**Sterling:** Yes that's true.

**COOK Report:** With these games you can explore many different roles many different potential careers, ideas, and skills needed? And by doing so to go get some sense of what it's like in the real world?

**Sterling:** Yes, you learn a lot about that about role-playing, teamwork and collaboration. They have to learn that to do different things. They need to get resources and to get the resources they need to understand the necessary ideas and modes of thinking to put them together. Consequently there are a lot

of practical skills involved that you wouldn't just get in a normal school because the normal school all your activities are centered on proving to everyone that the kids really test well.



We've been at the school now for two years and the things that I've really walked away with is the knowledge that the kids are getting comfortable within their own skins so to speak. In a multi-age environment like this they may get picked on a little bit by the older kids but that there is no real bullying going on either. While, at the same time, a lot of the younger kids are looking up to them as brothers or sisters who can teach them how to do math and spelling.

One of the things that I believe intentional communities can contribute is to give their members more of a sense of belonging or stability in times of turmoil. For some people this function is provided by membership in the church. But for others in search of spirituality and community, togetherness and sense of purpose is provided by hanging out with others of similar views and motivation and by building things together.



## Origins

**COOK Report:** Can you give me some specifics of the background, the site how the creek behind the school the co-housing area and so on?



**Sterling:** the school started down in Seattle in a couple of their homes and then they got themselves a small common space in Lake City and then they located the current property where there was already a school in existence. I believe it was a Montessori school. And then they found the property across the street that was just

perfect for 20 to 30 or 40 people to live over there and build interconnected homes.

## Staff

To emphasize that students learn in diverse ways with the help of many people, The Clearwater School hires "staff" rather than "teachers." Staff are highly skilled individuals who support each student's enthusiasm, curiosity and learning style. They take on many roles—teacher, mentor and friend. Rather than direct,

staff members follow each student's lead in order to assist them as they pursue their educational course. Staff members are elected annually by School Meeting.



<http://www.clearwaterschool.com/basics.htm>



### Stephanie Sarantos

Stephanie Sarantos became interested in the Sudbury model by watching her oldest child—then three-years-old—play imaginary games for hours, days and weeks on end. When she realized that schooling could seriously interfere with learning and growth, she became inspired to help start a Sudbury school and joined The Clearwater School founding group. Stephanie has a Ph.D. in Educational Psychology, and has worked with children for many years—as a nurse, dance instructor and parent. She loves watching children grow, distance running, swimming in fresh water and working at The Clearwater School.



## Clearwater Commons Seeks New Members

In 2006, several families from The Clearwater School joined together to purchase 7.4 acres across the street from the school and named it Clearwater Commons. The site includes wetlands, wooded spaces and a salmon stream and will

house a deep-green, cohousing community with 16 households, a common house, shared shop, gardens and open space. Site infrastructure construction was completed in 2010, and construction on the first group of houses started in August 2011.

Inspired by but not directly affiliated with The Clearwater School, Clearwater Commons welcomes individuals and families who share a commitment to community creation, habitat restoration and sustainable living. The Commons







Stephanie's house is across the street and about 200 yards from the school but adjoins the commons

seeks new members and has several units for sale. For more information, [go to the website.](#)

**COOK Report:**

What is the story of the already finished house that you pointed out?

**Sterling:**  
That's-

Stephanie's house. She is the older woman we talked to yesterday morning. The house belongs to her and her husband who has a background in land use planning. I guess you would describe them as the de-facto leaders in getting this group going.

It seems is quite valuable it to have the stream running down the valley right through the middle of the property. Her husband seems to have been quite good at cooperating with







the local authorities to find out what to do to get the stream rehabilitated to the point where it can be useful for salmon spawning.

When you are trying to come up with a master plan for building in a relatively confined space, it becomes much easier if you can squeeze some or all of your buildings together in such a way as to allow for a shared commons space. As well as a community center with a commercial kitchen where everyone would show up for dinner together. As well as for social events and stuff like that.

**COOK Report:** How does the financing of the co housing area work?

about 3 years and I know that it is an LLC now. The answer to your question would be determined by whatever their bylaws are. It is a form of partnership and I believe that the LLC owns the property and general infrastructure. As far as the housing units themselves go, I don't know whether it is governed by a condominium model or by something slightly different -- such as a community land trust.

**COOK Report:** In other words, you buy into a place where you can live and keep your belongings that is part of a membership organization

**Sterling:** Yes I'm sure there's something like that. There is certainly an expectation that you have to put in, either in money or in actual work, a certain amount of effort



**Co Housing First units under construction**



during every week and every month to keep things running.

**COOK Report:** With regard to your land-use planning, if you look over there at the stream, then you have the parking lot in front of the school then to handle the runoff from the lot you might actually go with a small front loader and scoop out some earth by the side of the stream to catch and momentarily hold, at least some of the runoff water?

**Sterling:** Yes and if you look at the area over there between the parking lot and the stream you will see that it was quite well done. Instead of the water emptying into a storm drain with a grate over it, it flows into what is really a kind of ditch with natural vegetation on the sides and bottom. With a larger area at the end of the ditch that serves as a pooling area and becomes a substitute for having to have a storm drain that you channel water into and then transport somewhere else.





On an incremental basis those are the kinds of things that you would like to see all over the community. And right now it seems that the only way you get them done is come up with tax money so that the government can hire a contractor to do it. I think there are much more community oriented ways to go about doing so and I think what is happened with Clearwater is a very outstanding example.

**COOK Report:** What do you know about the requirements on those 1st



### Rehabilitating the Salmon Stream

housing units that are beginning to go up?

**Sterling:** They seem to be about 2000 at 2300 ft.<sup>2</sup> and I think the costs are going to be a b o u t \$ 5 0 0 , 0 0 0 each. In addition to the single-family homes I have been hoping that they would have an arrangement where they could come up

with a youth hostel and an Elderhostel something more dormitory like but having nice commons areas





for people that need less.

Being able to consider the whole life cycle is one thing that I have seen that is sometimes lacking in these intentional communities.

**COOK Report:**

Do you know anything about what look like a yurt? [See preceding page.]

**Sterling:** Well

yes that was a dirt is quite a few of those Mongolian yurts around I think it is a portable one that you can tear down and move and put up again in 4 or 5 hours. I think it may belong to Tom. they are like a big old army tent with a higher ceiling in an open area in the middle. Were sometimes you can light a fire.

**COOK Report:**

Could they be used for meetings?

**Sterling:** Yes. You see quite a few of them in the western part of the US.

**COOK Report:** In the [Sudbury School](#) world view is it fair to say that basic reading and writing and arith-







metic can be learned through any of these computer games?

**Sterling:** To some extent, but in Idaho our triplets went to public school through the 5th grade.

Another interesting thing about Sudbury School that

the original founders of the school from the 1960s are still there at the original school in Boston nearly 50 years later

**COOK Report:**

In the music room you would learn how to do videos and mash-ups and mixing of audio and things like that?

**Sterling:** Yes that is certainly possible. One thing that currently doesn't happen much at Clearwater is there not a lot of directed projects





**COOK Report:** Is it a matter of size before you can do anything except what they explore on their own? Could you have for example some kind of the directed project going on in each of 4 different areas over a period of time.

**Sterling:** That potentially could happen.

**COOK Report:** In the area of people experimenting with new lifestyles what else is going on in addition to the sub area type of school the cohousing and so on?

**Sterling:** Oh there's a whole lot of thinking going on. What would a new banking industry look like? Our new insurance industry? Our new ways of delivering healthcare? Or new modes of transportation? I think there is a need for fundamental reconsideration of the way that local government delivers services to people in virtually every area. And facing these things make people very uncomfortable. But if we don't start talking about big changes this point, eventually we will have real disaster. We are simply going to run out of money to pay for the things that people are used to getting.

If you go to the business alliance for local living economies, you will find a lot of stuff on these ideas. There is information on permit culture and food supply issues. There is a lot of experimentation going on because there simply has to be a better way than what we're doing now.



# The Occupations in winter

*By Lambert Strether. Cross-posted from Corrente.*

**Editor's Note:** This is a good reflection on how Occupy evolved and where it might go.

Strether writes: "From the Barcalounger:

Snow happens. So some Occupations are in hunker down mode right now ("[We're waiting for warmer weather](#)"; "[Until Spring weather arrives the new GA schedule will be as follows](#)"; which explains why [#OccupySupplyFund supplies winter gear](#).)

The dark happens, too. And although some see Occupy as an aerial canopy of leaping bright [fire](#), I prefer to see Occupy as a species of rhizome: A mass of roots ([radix](#)) growing slowly and irresistibly, indeed invasively, and scaling horizontally by sending out runners everywhere. Underground and in the dark. Right now cold, but soon to be warm. And just like hops, asparagus, ginger, turmeric, galangal, irises, or Lily of the Valley, if you chop an Occupation into pieces, you get as many Occupations as the pieces you chopped.

But then, I garden; learning to grow food is my personal hedging strategy. So that's how I *would* think of Occupy: A healthy and conviviality-inducing tasty vegetable. And since right now all I can do is look at seed catalogs and plan my order, this also seems like a good time to muse on Occupy as well. (That, and I just got some warm clothes so I can go down to [Occupy Congress](#) on this latest [17th](#).) So, from one person who's tried to pay attention:

Here's the state of play this winter, which, readers, you will doubtless amplify or correct: Beginning last spring, Occupy started and spread in the ancient cities surrounding the Mediterranean basin: Tunis, Cairo, Athens, Madrid, Rome, among many others; Alexandria, Manama, Barcelona. According to some accounts, Mohamed Bouazizi, the Tunisian street vendor whose self-immolation set Occupy in motion, had difficulties getting a permit from the government for his vegetable stall. So [a critique of the rentier mentality, where rewards are related to chance or situation](#), can be seen as having been integral to Occupy from its inception. Following the ensuing revolt and Tunisian President Ben Ali's forced departure, events in Cairo provided the paradigm of a self-organizing crowd taking and holding space in a central city square (Tahrir Square, Syntagma Square, Puerta del Sol), exercising their right "peaceably to assemble, and to petition the Government for a redress of grievances." Factors that made Cairo uniquely successful in its application of this template were: (1) one demand (to Mubarak: Leave!) that "all walks of life" could accept; (2) years of social capital built up by the various organizers in organizing, especially union organizing; (3) Al Jazeera's serendipitous ability to train a camera on Tahrir Square 24/7, which meant that what Mubarak did was transparent and he could be held account-

able for it. (Also, and luckily, Al Jazeera as a news gathering organization was at the top of its game). The Egyptian Occupiers also had some tactical knowledge transfer from the Gene Sharp-inflected Otpor organization that took down Milosevic. To the Tahrir Square paradigm, the Occupiers in Madrid's Puerto del Sol added social capital from the deep Spanish anarchist tradition: The General Assembly and consensus-based decision-making. [The Cairo paradigm, as modified in Madrid, then crossed the Atlantic and took root in Zuccotti Square.](#)

\* \* \*I'm sure I wasn't the only observer who, watching the Occupations move steadily westward, asked: Will Occupations scale?

After all, Morocco, Egypt, Greece, and Spain are all small-ish European countries; small in population, area, and GNP, and peripheral at that. And one might also argue that "the square" assumes a different position in the European imagination than "the square" does here, where the *agora*, if there is one, is "the mall." Further, the United States is a multi-lingual and multi-national empire of continental scope. And the architects of the Federal system tried to ensure that there would be multiple centers of power in the United States. Would the Cairo + Madrid occupation paradigm scale to the United States?

And yes, amazingly, wonderfully, awesomely, the Occupation paradigm did scale. My own small and small-c conservative state, Maine, has not one, not two, but three Occupations in Portland, Augusta, and Bangor (each of quite different character). When Occupy San Diego, on their way to Occupy Congress, got thrown off the Greyhound in Amarillo, TX, Occupy Amarillo came to their aid. [UC Riverside researchers surveyed 482 incorporated towns and cities in California and found that 143 – nearly 30 percent – had Occupy sites on Facebook between December 1 and December 8.](#) Rhizomic growth. Occupy didn't spread because of celebrity endorsements, or online petitions from career "progressives," or corporate marketing programs, or billionaire funding. There were no focus groups. There was no polling. Occupy encampments spread despite — or because of — "clearing" operations organized by city mayors (who used oddly similar tactics and timing). Occupy participation spread despite — or because of — ongoing police assaults, especially by the NYPD "white shirts" of New York Mayor For Life Michael Bloomberg, and the thuggish OPD of Oakland Democrat Mayor Jean Quan. And Occupy ideas and tactics spread despite a relentless propaganda campaign in our famously free press comparing Occupiers to disease-bearing vermin and filth, with a rhetoric and an intensity worthy of *Der Stürmer*. (Cleverly, OWS had pre-empted this tactic by using some of its donated money to hire a cleaning truck.) Happily, ["We are the 99%"](#) stuck as a slogan, and in just a few months Occupy had changed the discourse to put "income inequality" (translation: class warfare) on the table; something that career "progressives" and their D allies in Washington have, oddly, or not, been unable to do in thirty years. Let's not forget or downplay these tremendous achievements! I am so grateful to the Occupations and the Occupiers, all of them, for giving me more hope than I've had in years.

Occupations in the United States seem to differ from the Cairo + Madrid in several ways. After all, Egypt is a client state, and the United States is the heart of the empire. In fact, none of the unique conditions that enabled the Egyptian Occupiers to achieve “their one demand” — that Mubarak leave — obtain. (1) In the US, unlike Egypt, there is no one demand, other than implicitly the right to continue to occupy (“peaceably assemble”). Nor can there be; one demand would need to be formulated, rhizomically, on the continental scale. How would that happen? (No points for saying “twitter” until you can point to an online system of consensus-based decision making.) Of course, the stupid and/or evil 1% are behaving so badly right now that a single grievance to address with a demand could crystallize in the coming year. In the meantime, the lack of demands is, in its own way, a strength: After all, in today’s political economy, “What is your demand?” really means “What is your price?” and who wants that? (2) In the US, unlike Egypt, the social capital available exhibits great regional, class, and cultural variation. The NYCGA was informed by international experience; Oakland has a long and proud history of union and black activism; Portland and Seattle have their own traditions; Occupations in Maine tend to be quite decorous. It’s not clear that the elite [DHS-authored?] anti-Occupation playbook is going to work in all cases, although the usual calls for brutality and informers are clearly being made. (3) In the US, unlike Egypt, there’s no 24/7 press coverage. To replace Al Jazeera’s camera, we have a patchwork of livestreams and mobiles run by dedicated and courageous individuals, but vulnerable to interruption or even spoofing. “Underground and in the dark.”

However, Occupations in the United States and Egypt can share one crucial characteristic: The joy that many speak of when they enter a genuinely public, self-organized space. (Having immobilized the Army by developing a reputation for non-violence, [the Egyptians won the battle of Tahrir Square by out-organizing Mubarak’s security forces](#).) I’d argue, although I’ve never done the deep analysis, that when that sense of joy is expressed — and it’s never the story, it’s always an aside of some sort — that the Occupation will be a success in its own eyes (Tahrir Square, Madrid, Wall Street) and that when the sense of joy is absent, the Occupation, again in its own eyes, will fail. [Matt Taibbi writes](#):

This is a visceral, impassioned, deep-seated rejection of the entire direction of our society, a refusal to take even one more step forward into the shallow commercial abyss of phoniness, short-term calculation, withered idealism and intellectual bankruptcy that American mass society has become. If there is such a thing as going on strike from one’s own culture, this is it. And by being so broad in scope and so elemental in its motivation, it’s flown over the heads of many on both the right and the left. ...

People want to go someplace for at least five minutes where no one is trying to bleed you or sell you something. It may not be a real model for anything, but it’s at least a place where people are free to dream of some other way for human beings to get along, beyond auctioned “democracy,” tyrannical commerce and the bottom line.

[An Oakland Occupier had a similar experience](#):





Never in my life did I imagine I'd be sitting with a group of adults seriously debating policy as if our decision made a difference.

After three decades as an American citizen and years of leaving messages for my representative, only last night, speaking into the human microphone, did I feel for the first time that my political participation could matter.

### Occupy New Jersey (Trenton)

I think if next spring's Occupations can continue to provide this sense of joy, other prerequisites will fall into place, and Occupy will continue to grow and thrive. (The General Assembly, the people's mike, and other organization structures are the Madrid part of the Cairo + Madrid paradigm. And so what if they come from the anarchist tradition?)

Oh, and "From the Barcalounger"? My brand of choice for a comfortable armchair. I'm not unaware that some (many) might read this post as reeking of WASP privilege, and of course it does. (*Le style c'est l'homme même.*) Even if I do have a Plan C of growing my own food, I can still pass! At least until [my teeth](#) go. For now, so and but if indeed "all walks of life" can participate in Occupy, I can still do my bit. From [a comment on an article by Boots Riley at Oakland Local](#):

I am happy as hell that these middle class jerks show up with their bourgie Canon EOS Rebel 2Ti's and capture the brutality of OPD in precise, undeniable detail. Then use their college educated grammar and vocabulary to blog this on their middle class Macbook Pros.



This is what makes Oakland's Occupy great. We are upper middle class business owners, homeless vets, web developers, teachers, working poor, students, people of color, angry white males and everything in between.

We aren't gonna make it across the finish line as the 15% or even the 45%. That's me! A middle class jerk! Also: Basing discourse on evidence and reasoning means that ideas can be shown to be valid or useful no matter who advances them; and even if the progressive stack means that I'm not the person doing the advancing, nevertheless... I might be.

Further reading, discuss in comments.

1. Black Agenda Report, [Occupy Wall Street Joins Occupy The Dream: Is It Cooptation, or Growing the Movement?](#) Nooo! Don't go in the haunted house!!
2. Via Lois Proyect, [Boots Riley on black bloc tactics](#) Passionate and informed discussion on tactics from the ground in Oakland.
3. Bella Eiko, [The Truth About Occupy Oakland – the Tactical Action Committee](#). Equally passionate and informed. My takeaway is that the Oakland Tactical Action Committee has a very tough job. I venture to suggest — only because I don't see this idea expressed in the posts I've read — that the TAC may not realize the tremendous leverage they have to define in the eyes "all walks of life" the best that Occupy can be, or the worst. And if they don't do it themselves, our famously free press will be more than happy to do it for them."

Meanwhile here are other recommended links from the **COOK Report's reading:**

<http://www.nakedcapitalism.com/2012/01/mers-the-law-and-the-state.html>

Chris Hedges Occupy Princeton Dec 13, 2011 <http://www.youtube.com/watch?v=E0UqEDSI614>

<http://www.nakedcapitalism.com/2012/01/a-federally-funded-jobs-program-lessons-from-the-wpa.html>

<http://www.nakedcapitalism.com/2012/01/call-your-attorney-general-today-to-oppose-big-obama-push-to-get-mortgage-settlement-deal-done.html>

<http://www.nakedcapitalism.com/2012/01/george-washington-corrupt-regimes-crumble-when-the-foot-soldiers-refuse-to-carry-out-the-tyrant%E2%80%99s-draconian-orders.html>

<http://www.nakedcapitalism.com/2012/01/will-the-mittnewt-slugfest-boost-the-occupy-movement.html>

<http://www.nakedcapitalism.com/2012/01/is-schneiderman-selling-out-signs-up-to-co-chair-committee-designed-to-undermine-defectors-to-mortgage-settlement-deal.html>

<http://newsjunkiepost.com/2012/01/22/has-ex-goldmann-sachs-staff-turned-democrat-campaigner-infiltrated-occupy/>

## Chapter 4

# Understanding the Economics of the Post Crash, Hollowed-Out, Nation State

**Editor's Note:** as I watch the world continuing to drift along almost four years after the crash with nothing fundamentally changed, I agree with Lessig's charge that nothing signals the pervasiveness of corruption more strongly than the fact that our government functions on behalf of the moochers of Wall Street that brought our economy down and looks to be incapable of doing something about it. When for the 3<sup>rd</sup> year in a row the president talks about punishing mortgage wrongdoing and signifies his so-called determination by adding a grand total of 10 FBI agents to investigate what are essentially ongoing coverups, something is drastically wrong.

What is even more irritating is that as I continue to read I realize that there are policy actions which are far more likely to put our economy and society back on a sound footing than the ones that the looters who have come to power are pursuing. We actually do have sound analyses of the shortcomings of economic policy and efforts underway by which if our politicians were working for us rather than the banks we could correct past wrongs instead of remaining on the brink of another catastrophic failure in Europe.

I include in this section besides my own introduction the republication of a very recent piece by Michael Hudson in which he does an outstanding job of teaching us about the evolution of banking history which is to say merchant banks in the Netherlands and the United Kingdom that influenced American banking in the 20<sup>th</sup> century and the rather different less speculative more industrial policy oriented Continental system of France and Germany during the 19<sup>th</sup> century. This brings out the alternative models of what banks are for in the 21<sup>st</sup> century and is extremely illuminating when trying to understand our captured government's failure to do anything other than coddle and continue to enable him and him our current corrupt oligarchy. The 2<sup>nd</sup> major portion of what follows is my description of the font of the Australian economist Steve Keen and modern monetary theory. I explain how his analysis of the lack of American policymakers willing to consider the role of that helps to ensure what is likely to become a 20 year long depression.

## Introduction

Since mid 2008 I have read probably 20 books on the crash and another ten on the direction and sustainability of the economy and global capitalism – wondering all the time what will replace the hopelessly broken implementation of neoclassical, equilibrium seeking, so-called free markets. Now that we all have a pretty good idea of how the economy was looted these pages will lay out some analysis of why it has not recovered and why it is still shaky by pointing out why some analysts think current policies cannot solve the problem.

It is very clear that our economy is still captive to Wall Street, that what reforms have been implemented are largely toothless and that the continuation of the standard neoclassical approach is dragging Europe into a deep recession or worse. Meanwhile the US ap-



pears to face 15 to 20 more years of deleveraging the absurd amount of debt that our politicians allowed Wall Street to build up on behalf of the private sector. An amount of debt which, as a portion of gross domestic product, peaked at roughly 300% while public debt hovers around 100% and most corporations are sitting on piles of cash. Captive to the banks, the politicians insist that the system must be reimbursed 100% for the unprecedented amount of debt that it ran up not on hard investments that contributed to the economy but on speculative gambling on increasing asset prices during its deregulated debt boom heydays.

The growth needed to make large amounts of sovereign debt sustainable has on the whole ceased, while an increasingly automated bond market incorporates what looks like attacks on new issues of sovereign debt of driving interest rates to the point where the respective national economies not only of Greece but even of Italy may no longer be able to sustain their payment.

Last summer the United States witnessed the absurd and unneeded spectacle of whether it could afford to raise the debt limit lest the buyers of U.S. Treasury bonds go on strike. The politicians were warning that so called entitlements must be cut and that because the richest 1% allegedly created jobs due to lower tax rates, the poor would have to pay the bill for the folly of Wall Street.

Fortunately in September, when Occupying blossomed across the land and across much of the world, the discussion began to focus on what was said had become a very tilted playing field established to ensure the continued growing wealth of the 1% at the expense of everyone else. That the banks on behalf of what had become a purely speculative financial sector looted the economy is generally not in dispute but one source of the outrage felt is that unlike the Savings and Loan debacle of the late 80s there have been very few prosecutions and the outcome of these has been effectively a slap on the wrist that is written off by Goldman Sachs as the cost of doing business.

Thus the neoclassical Keynesian system that emerged out of the depression of the 30s remains in shape -- patched up by a few bandages -- and has been allowed to go on extracting enormous rents from a global economy that offers benefits mainly to extreme wealth and pushes everyone else ever closer to poverty. Fascism and World War II were the progeny of the Great Depression—we had better hope that the current situation does not devolve into a replay. Consequently perhaps the most critical question for economic policy-making is what could replace the discredited neoclassical free-market?

## **What Could Replace the Discredited Neoclassical Free-market?**

Some powerful ideas are beginning to emerge and most of them point out that the current stewards of economies in developed countries are unaware of the extraordinary impact of the amount of private sector debt in the current global situation. David Graeber, an an-

thropologist, came out with a book last summer called [\*Debt the First 5000 Years\*](#). Perhaps it's most significant meme is that when civilized human economies have gone over the brink, it most often has been the impact of debt that has pushed them there. Graeber also explains that throughout several thousand years of human history rulers have many times been able to effectively press the reset button to their economies by declaring a debt jubilee which in effect describes the conditions under which debts of the people shall be erased.

As far as more general economic theories go, there is evolving what is becoming known as [Modern Money Theory](#) being written about among others by economists at the University of Missouri Kansas City. [These include [L. Randall Wray](#), [William K. Black](#), [Marshall Auerbach](#) and others.]

One key aspect of MMT is the premise that a country that issues its own currency for example: Great Britain, Switzerland, Japan, United States, Canada and so on cannot default on its sovereign debt unless, for political reasons, it simply decides to stop paying. This is most relevant now because of the Euro crisis. Where the 17 European nations using the Euro as a single currency are locked into a no-win situation where the economically strongest member Germany pays close to 0% on new debt in early 2012 and the weakest member Greece can no longer sell its debt and also cannot devalue its currency which an otherwise sovereign nation could. Thus MMT would say that it is totally foolish to treat sovereign debt in the United States in the same way as it might be treated in the countries of the Euro-zone.

I have read the first 30 installments of the [MMT primer](#) of there are likely to be another 30 installments. I find it intriguing and it goes in to a fascinating critique of the assumed non-viability of many of the current plans of the federal reserve that I as an outsider find extremely difficult to grasp -- even with more than one reading. I suspect however that there is something positive there that demands further very serious consideration. And him and him.

Something to replace the old thinking is certainly mandatory. On January 30, 2012 a source wrote: "The EU is the national governments. I am in Brussels tonight. Miserable weather, cold and dark and dank. There will be a train strike to morrow.

But this is where the EU Council meets, that is composed of the ministers of national governments. They come and meet here and make the decisions wearing a collective hat. We call that the EU but its the relevant ministers from the national governments. Not to be confused with the Commission, which is like the executive branch of EU government.

Fiscal union is what is being discussed among the member states in the EU here in Brussels tomorrow. ***If it doesn't work we are looking at an exit of Greece, then probably Italy, Ireland, Spain and others from the Euro. Massive currency devaluation,***

***loss of confidence and a reduction in productive capacity. Possibly as much as 10% of GDP in many countries. What this means for job losses is anyone's guess. This is the abyss.***

Maintaining confidence in the system and providing an enforcement mechanism to prevent profligate spending by national government seems to me to be a sensible approach. Sharing sovereignty is what the EU is about.”

**COOK Report:** This is a very ominous scenario. I see now way that Greece can be keep in the monetary union without becoming in effect a colony of Germany. From this side of the pond the situation is looking very ugly and one outcome which might seem to be a solution is likely to raise old fears and distrust and resentment of Germany. For anyone with any sense of history that is not a welcome outcome.



**Occupy New Jersey**

# Understanding the Role of Banks in Non-speculative Investment

This appeared in [Naked Capitalism](#) on January 27. It shows that here are banking models utterly different that the current Anglo American one centered on the speculative financialized casinos in favor in the City of London and Wall Street.

## Michael Hudson: Banks Weren't Meant to Be Like This

*By Michael Hudson, a research professor of Economics at University of Missouri, Kansas City and a research associate at the Levy Economics Institute of Bard College*

*A shorter version of this article in German will run in the Frankfurter Allgemeine Zeitung on January 28, 2012*

The inherently symbiotic relationship between banks and governments recently has been reversed. In medieval times, wealthy bankers lent to kings and princes as their major customers. But now it is the banks that are needy, relying on governments for funding – capped by the post-2008 bailouts to save them from going bankrupt from their bad private-sector loans and gambles.

Yet the banks now browbeat governments – not by having ready cash but by threatening to go bust and drag the economy down with them if they are not given control of public tax policy, spending and planning. The process has gone furthest in the United States. Joseph Stiglitz [characterizes the Obama administration's vast transfer of money and public debt to the banks](#) as a “privatizing of gains and the socializing of losses. It is a ‘partnership’ in which one partner robs the other.” Prof. Bill Black [describes banks as becoming criminogenic and innovating “control fraud.”](#) High finance has corrupted regulatory agencies, falsified account-keeping by “mark to model” trickery, and financed the campaigns of its supporters to disable public oversight. The effect is to leave banks in control of how the economy's allocates its credit and resources.

If there is any silver lining to today's debt crisis, it is that the present situation and trends cannot continue. So this is not only an opportunity to restructure banking; we have little choice. The urgent issue is who will control the economy: governments, or the financial sector and monopolies with which it has made an alliance.

Fortunately, it is not necessary to re-invent the wheel. Already a century ago the outlines of a productive industrial banking system were well understood. But recent bank lobbying has been remarkably successful in distracting attention away from classical analyses of how to shape the financial and tax system to best promote economic growth – by public checks on bank privileges.

## How Banks Broke The Social Compact, Promoting Their Own Special Interests

People used to know what banks did. Bankers took deposits and lent them out, paying short-term depositors less than they charged for risky or less liquid loans. The risk was borne by bankers, not depositors or the government. But today, bank loans are made increasingly to speculators in recklessly large amounts

for quick in-and-out trading. Financial crashes have become deeper and affect a wider swath of the population as debt pyramiding has soared and credit quality plunged into the toxic category of “liars’ loans.”

The first step toward today’s mutual interdependence between high finance and government was for central banks to act as lenders of last resort to mitigate the liquidity crises that periodically resulted from the banks’ privilege of credit creation. In due course governments also provided public deposit insurance, recognizing the need to mobilize and recycle savings into capital investment as the Industrial Revolution gained momentum. In exchange for this support, they regulated banks as public utilities.

Over time, banks have sought to disable this regulatory oversight, even to the point of decriminalizing fraud. Sponsoring an ideological attack on government, they accuse public bureaucracies of “distorting” free markets (by which they mean markets free for predatory behavior). The financial sector is now making its move to concentrate planning in its own hands.

The problem is that the financial time frame is notoriously short-term and often self-destructive. And inasmuch as the banking system’s product is debt, its business plan tends to be extractive and predatory, leaving economies high-cost. This is why checks and balances are needed, along with regulatory oversight to ensure fair dealing. Dismantling public attempts to steer banking to promote economic growth (rather than merely to make bankers rich) has permitted banks to turn into something nobody anticipated. Their major customers are other financial institutions, insurance and real estate – the FIRE sector, not industrial firms. Debt leveraging by real estate and monopolies, arbitrage speculators, hedge funds and corporate raiders inflates asset prices on credit. The effect of creating “balance sheet wealth” in this way is to load down the “real” production-and-consumption economy with debt and related rentier charges, adding more to the cost of living and doing business than rising productivity reduces production costs.

Since 2008, public bailouts have taken bad loans off the banks’ balance sheet at enormous taxpayer expense – some \$13 trillion in the United States, and proportionally higher in Ireland and other economies now being subjected to austerity to pay for “free market” deregulation. Bankers are holding economies hostage, threatening a monetary crash if they do not get more bailouts and nearly free central bank credit, and more mortgage and other loan guarantees for their casino-like game. The resulting “too big to fail” policy means making governments too weak to fight back.

The process that began with central bank support thus has turned into broad government guarantees against bank insolvency. The largest banks have made so many reckless loans that they have become wards of the state. Yet they have become powerful enough to capture lawmakers to act as their facilitators. The popular media and even academic economic theorists have been mobilized to pose as experts in an attempt to convince the public that financial policy is best left to technocrats – of the banks’ own choosing, as if there is no alternative policy but for governments to subsidize a financial free lunch and crown bankers as society’s rulers.

The Bubble Economy and its austerity aftermath could not have occurred without the banking sector’s success in weakening public regulation, capturing national treasuries and even disabling law enforcement. Must governments surrender to this power grab? If not, who should bear the losses run up by a financial system that has become dysfunctional? If taxpayers have to pay, their economy will become high-cost and uncompetitive – and a financial oligarchy will rule.

## The Present Debt Quandary

The endgame in times past was to write down bad debts. That meant losses for banks and investors. But today's debt overhead is being kept in place – shifting bad loans off bank balance sheets to become public debts owed by taxpayers to save banks and their creditors from loss. Governments have given banks newly minted bonds or central bank credit in exchange for junk mortgages and bad gambles – without re-structuring the financial system to create a more stable, less debt-ridden economy. The pretense is that these bailouts will enable banks to lend enough to revive the economy by enough to pay its debts.

Seeing the handwriting on the wall, bankers are taking as much bailout money as they can get, and running, using the money to buy as much tangible property and ownership rights as they can while their lobbyists keep the public subsidy faucet running.

The pretense is that debt-strapped economies can resume business-as-usual growth by borrowing their way out of debt. But a quarter of U.S. real estate already is in negative equity – worth less than the mortgages attached to it – and the property market is still shrinking, so banks are not lending except with public Federal Housing Administration guarantees to cover whatever losses they may suffer. In any event, it already is mathematically impossible to carry today's debt overhead without imposing austerity, debt deflation and depression.

This is not how banking was supposed to evolve. If governments are to underwrite bank loans, they may as well be doing the lending in the first place – and receiving the gains. Indeed, since 2008 the over-indebted economy's crash led governments to become the major shareholders of the largest and most troubled banks – Citibank in the United States, Anglo-Irish Bank in Ireland, and Britain's Royal Bank of Scotland. Yet rather than taking this opportunity to run these banks as public utilities and lower their charges for credit-card services – or most important of all, to stop their lending to speculators and gamblers – governments left these banks operating as part of the “casino capitalism” that has become their business plan.

There is no natural reason for matters to be like this. Relations between banks and government used to be the reverse. In 1307, France's Philip IV (“The Fair”) set the tone by seizing the Knights Templars' wealth, arresting them and putting many to death – not on financial charges, but on the accusation of devil-worshipping and satanic sexual practices. In 1344 the Peruzzi bank went broke, followed by the Bardi by making unsecured loans to Edward III of England and other monarchs who died or defaulted. Many subsequent banks had to suffer losses on loans gone bad to real estate or financial speculators.

By contrast, now the U.S., British, Irish and Latvian governments have taken bad bank loans onto their national balance sheets, imposing a heavy burden on taxpayers – while letting bankers cash out with immense wealth. These “cash for trash” swaps have turned the mortgage crisis and general debt collapse into a fiscal problem. Shifting the new public bailout debts onto the non-financial economy threaten to increase the cost of living and doing business. This is the result of the economy's failure to distinguish productive from unproductive loans and debts. It helps explain why nations now are facing financial austerity and debt peonage instead of the leisure economy promised so eagerly by technological optimists a century ago.

So we are brought back to the question of what the proper role of banks should be. This issue was discussed exhaustively prior to World War I. It is even more urgent today.

## How Classical Economists Hoped to Modernize Banks as Agents of Industrial Capitalism

Britain was the home of the Industrial Revolution, but there was little long-term lending to finance investment in factories or other means of production. British and Dutch merchant banking was to extend short-term credit on the basis of collateral such as real property or sales contracts for merchandise shipped (“receivables”). Buoyed by this trade financing, merchant bankers were successful enough to maintain long-established short-term funding practices. This meant that James Watt and other innovators were obliged to raise investment money from their families and friends rather than from banks.

It was the French and Germans who moved banking into the industrial stage to help their nations catch up. In France, the Saint-Simonians described the need to create an industrial credit system aimed at funding means of production. In effect, the Saint-Simonians proposed to restructure banks along lines akin to a mutual fund. A start was made with the *Crédit Mobilier*, founded by the Péréire Brothers in 1852. Their aim was to shift the banking and financial system away from debt financing at interest toward equity lending, taking returns in the form of dividends that would rise or decline in keeping with the debtor’s business fortunes. By giving businesses leeway to cut back dividends when sales and profits decline, profit-sharing agreements avoid the problem that interest must be paid willy-nilly. If an interest payment is missed, the debtor may be forced into bankruptcy and creditors can foreclose. It was to avoid this favoritism for creditors regardless of the debtor’s ability to pay that prompted Mohammed to ban interest under Islamic law.

Attracting reformers ranging from socialists to investment bankers, the Saint-Simonians won government backing for their policies under France’s Third Empire. Their approach inspired Marx as well as industrialists in Germany and protectionists in the United States and England. The common denominator of this broad spectrum was recognition that an efficient banking system was needed to finance the industry on which a strong national state and military power depended.

## Germany Develops an Industrial Banking System

It was above all in Germany that long-term financing found its expression in the Reichsbank and other large industrial banks as part of the “holy trinity” of banking, industry and government planning under Bismarck’s “state socialism.” German banks made a virtue of necessity. British banks “derived the greater part of their funds from the depositors,” and steered these savings and business deposits into mercantile trade financing. This forced domestic firms to finance most new investment out of their own earnings. By contrast, Germany’s “lack of capital ... forced industry to turn to the banks for assistance,” noted the financial historian George Edwards. “A considerable proportion of the funds of the German banks came not from the deposits of customers but from [the capital subscribed by the proprietors themselves](#). As a result, German banks “stressed investment operations and were formed not so much for receiving deposits and granting loans but rather for supplying the investment requirements of industry.”

When the Great War broke out in 1914, Germany’s rapid victories were widely viewed as reflecting the superior efficiency of its financial system. To some observers the war appeared as a struggle between rival forms of financial organization. At issue was not only who would rule Europe, but whether the continent would have *laissez faire* or a more state-socialist economy.

In 1915, shortly after fighting broke out, the Christian Socialist priest-politician Friedrich Naumann published *Mitteleuropa*, describing how Germany recognized more than any other nation that industrial technology needed long term financing and government support. His book inspired Prof. H. S. Foxwell in England to draw on his arguments in two remarkable essays published in the *Economic Journal* in



September and December 1917: “The Nature of the Industrial Struggle,” and “The Financing of Industry and Trade.” He endorsed Naumann’s contention that “the old individualistic capitalism, of what he calls the English type, is giving way to the new, more impersonal, group form; to the disciplined scientific capitalism he claims as German.”

This was necessarily a group undertaking, with the emerging tripartite integration of industry, banking and government, with finance being “undoubtedly the main cause of the success of modern German enterprise,” Foxwell concluded (p. 514). German bank staffs included industrial experts who were forging industrial policy into a science. And in America, Thorstein Veblen’s *The Engineers and the Price System* (1921) voiced the new industrial philosophy calling for bankers and government planners to become engineers in shaping credit markets.

Foxwell warned that British steel, automotive, capital equipment and other heavy industry was becoming obsolete largely because its bankers failed to perceive the need to promote equity investment and extend long term credit. They based their loan decisions not on the new production and revenue their lending might create, but simply on what collateral they could liquidate in the event of default: inventories of unsold goods, real estate, and money due on bills for goods sold and awaiting payment from customers. And rather than investing in the shares of the companies that their loans supposedly were building up, they paid out most of their earnings as dividends – and urged companies to do the same. This short time horizon forced business to remain liquid rather than having leeway to pursue long term strategy.

German banks, by contrast, paid out dividends (and expected such dividends from their clients) at only half the rate of British banks, choosing to retain earnings as capital reserves and invest them largely in the stocks of their industrial clients. Viewing these companies as allies rather than merely as customers from whom to make as large a profit as quickly as possible, German bank officials sat on their boards, and helped expand their business by extending loans to foreign governments on condition that their clients be named the chief suppliers in major public investments. Germany viewed the laws of history as favoring national planning to organize the financing of heavy industry, and gave its bankers a voice in formulating international diplomacy, making them “the principal instrument in the extension of her foreign trade and political power.”

A similar contrast existed in the stock market. British brokers were no more up to the task of financing manufacturing in its early stages than were its banks. The nation had taken an early lead by forming Crown corporations such as the East India Company, the Bank of England and even the South Sea Company. Despite the collapse of the South Sea Bubble in 1720, the run-up of share prices from 1715 to 1720 in these joint-stock monopolies established London’s stock market as a popular investment vehicle, for Dutch and other foreigners as well as for British investors. But the market was dominated by railroads, canals and large public utilities. Industrial firms were not major issuers of stock.

In any case, after earning their commissions on one issue, British stockbrokers were notorious for moving on to the next without much concern for what happened to the investors who had bought the earlier securities. “As soon as he has contrived to get his issue quoted at a premium and his underwriters have unloaded at a profit,” complained Foxwell, “his enterprise ceases. ‘To him,’ as the Times says, ‘a successful flotation is of more importance than a sound venture.’”

Much the same was true in the United States. Its merchant heroes were individualistic traders and political insiders often operating on the edge of the law to gain their fortunes by stock-market manipulation, railroad politicking for land giveaways, and insurance companies, mining and natural resource extrac-



tion. America's wealth-seeking spirit found its epitome in Thomas Edison's hit-or-miss method of invention, coupled with a high degree of litigiousness to obtain patent and monopoly rights.

In sum, neither British nor American banking or stock markets planned for the future. Their time frame was short, and they preferred rent-extracting projects to industrial innovation. Most banks favored large real estate borrowers, railroads and public utilities whose income streams easily could be forecast. Only after manufacturing companies grew fairly large did they obtain significant bank and stock market credit.

What is remarkable is that this is the tradition of banking and high finance that has emerged victorious throughout the world. The explanation is primarily the military victory of the United States, Britain and their Allies in the Great War and a generation later, in World War II.

### **The Regression Toward Burdensome Unproductive Debts After World War I**

The development of industrial credit led economists to distinguish between productive and unproductive lending. A productive loan provides borrowers with resources to trade or invest at a profit sufficient to pay back the loan and its interest charge. An unproductive loan must be paid out of income earned elsewhere. Governments must pay war loans out of tax revenues. Consumers must pay loans out of income they earn at a job – or by selling assets. These debt payments divert revenue away from being spent on consumption and investment, so the economy shrinks. This traditionally has led to crises that wipe out debts, above all those that are unproductive.

In the aftermath of World War I the economies of Europe's victorious and defeated nations alike were dominated by postwar arms and reparations debts. These inter-governmental debts were to pay for weapons (by the Allies when the United States unexpectedly demanded that they pay for the arms they had bought before America's entry into the war), and for the destruction of property (by the Central Powers), not new means of production. Yet to the extent that they were inter-governmental, these debts were more intractable than debts to private bankers and bondholders. Despite the fact that governments in principle are sovereign and hence can annul debts owed to private creditors, the defeated Central Powers governments were in no position to do this.

And among the Allies, Britain led the capitulation to U.S. arms billing, captive to the creditor ideology that "a debt is a debt" and must be paid regardless of what this entails in practice or even whether the debt in fact can be paid. Confronted with America's demand for payment, the Allies turned to Germany to make them whole. After taking its liquid assets and major natural resources, they insisted that it squeeze out payments by taxing its economy. No attempt was made to calculate just how Germany was to do this – or most important, how it was to convert this domestic revenue (the "budgetary problem") into hard currency or gold. Despite the fact that banking had focused on international credit and currency transfers since the 12th century, there was a broad denial of what John Maynard Keynes identified as a foreign exchange *transfer problem*.

Never before had there been an obligation of such enormous magnitude. Nevertheless, all of Germany's political parties and government agencies sought to devise ways to tax the economy to raise the sums being demanded. Taxes, however, are levied in a nation's own currency. The only way to pay the Allies was for the Reichsbank to take this fiscal revenue and throw it onto the foreign exchange markets to obtain the sterling and other hard currency to pay. Britain, France and the other recipients then paid this money on their Inter-Ally debts to the United States.

Adam Smith pointed out that no government ever had paid down its public debt. But creditors always have been reluctant to acknowledge that debtors are unable to pay. Ever since David Ricardo's lobbying for their perspective in Britain's Bullion debates, creditors have found it their self-interest to promote a doctrinaire blind spot, insisting that debts of any magnitude could be paid. They resist acknowledging a distinction between raising funds domestically (by running a budget surplus) and obtaining the foreign exchange to pay foreign-currency debt. Furthermore, despite the evident fact that austerity cutbacks on consumption and investment can only be extractive, creditor-oriented economists refused to recognize that debts cannot be paid by shrinking the economy. Or that foreign debts and other international payments cannot be paid in domestic currency without lowering the exchange rate.

The more domestic currency Germany sought to convert, the further its exchange rate was driven down against the dollar and other gold-based currencies. This obliged Germans to pay much more for imports. The collapse of the exchange rate was the source of hyperinflation, not an increase in domestic money creation as today's creditor-sponsored monetarist economists insist. In vain Keynes pointed to the specific structure of Germany's balance of payments and asked creditors to specify just how many German exports they were willing to take, and to explain how domestic currency could be converted into foreign exchange without collapsing the exchange rate and causing price inflation.

Tragically, Ricardian tunnel vision won Allied government backing. Bertil Ohlin and Jacques Rueff claimed that economies receiving German payments would recycle their inflows to Germany and other debt-paying countries by buying their imports. If income adjustments did not keep exchange rates and prices stable, then Germany's falling exchange rate would make its exports sufficiently more attractive to enable it to earn the revenue to pay.

This is the logic that the International Monetary Fund followed half a century later in insisting that Third World countries remit foreign earnings and even permit flight capital as well as pay their foreign debts. It is the neoliberal stance now demanding austerity for Greece, Ireland, Italy and other Eurozone economies.

Bank lobbyists claim that the European Central Bank will risk spurring domestic wage and price inflation if it does what central banks were founded to do: finance budget deficits. Europe's financial institutions are given a monopoly right to perform this electronic task – and to receive interest for what a real central bank could create on its own computer keyboard.

But why it is less inflationary for commercial banks to finance budget deficits than for central banks to do this? The bank lending that has inflated a global financial bubble since the 1980s has left as its legacy a debt overhead that can no more be supported today than Germany was able to carry its reparations debt in the 1920s. Would government credit have so recklessly inflated asset prices?

### **How Debt Creation Has Fueled Asset-Price Inflation Since The 1980s**

Banking in recent decades has not followed the productive lines that early economic futurists expected. As noted above, instead of financing tangible investment to expand production and innovation, most loans are made against collateral, with interest to be paid out of what borrowers can make elsewhere. Despite being unproductive in the classical sense, it was remunerative for debtors from 1980 until 2008 – not by investing the loan proceeds to expand economic activity, but by riding the wave of asset-price inflation. Mortgage credit enabled borrowers to bid up property prices, drawing speculators and new customers into the market in the expectation that prices would continue to rise. But hothouse credit infusions meant additional debt service, which ended up shrinking the market for goods and services.

Under normal conditions the effect would have been for rents to decline, with property prices following suit, leading to mortgage defaults. But banks postponed the collapse into negative equity by lowering their lending standards, providing enough new credit to keep on inflating prices. This averted a collapse of their speculative mortgage and stock market lending. It was inflationary – but it was inflating asset prices, not commodity prices or wages. Two decades of asset price inflation enabled speculators, homeowners and commercial investors to borrow the interest falling due and still make a capital gain.

This hope for a price gain made winning bidders willing to pay lenders all the current income – making banks the ultimate and major rentier income recipients. The process of inflating asset prices by easing credit terms and lowering the interest rate was self-feeding. But it also was self-terminating, because raising the multiple by which a given real estate rent or business income can be “capitalized” into bank loans increased the economy’s debt overhead.

Securities markets became part of this problem. Rising stock and bond prices made pension funds pay more to purchase a retirement income – so “pension fund capitalism” was coming undone. So was the industrial economy itself. Instead of raising new equity financing for companies, the stock market became a vehicle for corporate buyouts. Raiders borrowed to buy out stockholders, loading down companies with debt. The most successful looters left them bankrupt shells. And when creditors turned their economic gains from this process into political power to shift the tax burden onto wage earners and industry, this raised the cost of living and doing business – by more than technology was able to lower prices.

### **The EU Rejects Central Bank Money Creation, Leaving Deficit Financing to the Banks**

Article 123 of the Lisbon Treaty forbids the ECB or other central banks to lend to government. But central banks were created specifically – to finance government deficits. The EU has rolled back history to the way things were three hundred years ago, before the Bank of England was created. Reserving the task of credit creation for commercial banks, it leaves governments without a central bank to finance the public spending needed to avert depression and widespread financial collapse.

So the plan has backfired. When “hard money” policy makers limited central bank power, they assumed that public debts would be risk-free. Obliging budget deficits to be financed by private creditors seemed to offer a bonanza: being able to collect interest for creating electronic credit that governments can create themselves. But now, European governments need credit to balance their budget or face default. So banks now want a central bank to create the money to bail them out for the bad loans they have made.

For starters, the ECB’s €489 billion in three-year loans at 1% interest gives banks a free lunch arbitrage opportunity (the “carry trade”) to buy Greek and Spanish bonds yielding a higher rate. The policy of buying government bonds in the open market – after banks first have bought them at a lower issue price – gives the banks a quick and easy trading gain.

How are these giveaways less inflationary than for central banks to directly finance budget deficits and roll over government debts? Is the aim of giving banks easy gains simply to provide them with resources to resume the Bubble Economy lending that led to today’s debt overhead in the first place?

### **Conclusion**

Governments can create new credit electronically on their own computer keyboards as easily as commercial banks can. And unlike banks, their spending is expected to serve a broad social purpose, to be

determined democratically. When commercial banks gain policy control over governments and central banks, they tend to support their own remunerative policy of creating asset-inflationary credit – leaving the clean-up costs to be solved by a post-bubble austerity. This makes the debt overhead even harder to pay – indeed, impossible.

So we are brought back to the policy issue of how public money creation to finance budget deficits differs from issuing government bonds for banks to buy. Is not the latter option a convoluted way to finance such deficits – at a needless interest charge? When governments monetize their budget deficits, they do not have to pay bondholders.

I have heard bankers argue that governments need an honest broker to decide whether a loan or public spending policy is responsible. To date their advice has not promoted productive credit. Yet they now are attempting to compensate for the financial crisis by telling debtor governments to sell off property in their public domain. This “solution” relies on the myth that privatization is more efficient and will lower the cost of basic infrastructure services. Yet it involves paying interest to the buyers of rent-extraction rights, higher executive salaries, stock options and other financial fees.

Most cost savings are achieved by shifting to non-unionized labor, and typically end up being paid to the privatizers, their bankers and bondholders, not passed on to the public. And bankers back price deregulation, enabling privatizers to raise access charges. This makes the economy higher cost and hence less competitive – just the opposite of what is promised.

Banking has moved so far away from funding industrial growth and economic development that it now benefits primarily at the economy’s expense in a predator and extractive way, not by making productive loans. This is now the great problem confronting our time. Banks now lend mainly to other financial institutions, hedge funds, corporate raiders, insurance companies and real estate, and engage in their own speculation in foreign currency, interest-rate arbitrage, and computer-driven trading programs. Industrial firms bypass the banking system by financing new capital investment out of their own retained earnings, and meet their liquidity needs by issuing their own commercial paper directly. Yet to keep the bank casino winning, global bankers now want governments not only to bail them out but to enable them to renew their failed business plan – and to keep the present debts in place so that creditors will not have to take a loss.

This wish means that society should lose, and even suffer depression. We are dealing here not only with greed, but with outright antisocial behavior and hostility.

Europe thus has reached a critical point in having to decide whose interest to put first: that of banks, or the “real” economy. History provides a wealth of examples illustrating the dangers of capitulating to bankers, and also for how to restructure banking along more productive lines. The underlying questions are clear enough:

- \* Have banks outlived their historical role, or can they be restructured to finance productive capital investment rather than simply inflate asset prices?
- \* Would a public option provide less costly and better directed credit?
- \* Why not promote economic recovery by writing down debts to reflect the ability to pay, rather than relinquishing more wealth to an increasingly aggressive creditor class?

Solving the Eurozone’s financial problem can be made much easier by the tax reforms that classical economists advocated to complement their financial reforms. To free consumers and employers from

taxation, they proposed to levy the burden on the “unearned increment” of land and natural resource rent, monopoly rent and financial privilege. The guiding principle was that property rights in the earth, monopolies and other ownership privileges have no direct cost of production, and hence can be taxed without reducing their supply or raising their price, which is set in the market. Removing the tax deductibility for interest is the other key reform that is needed.

A rent tax holds down housing prices and those of basic infrastructure services, whose untaxed revenue tends to be capitalized into bank loans and paid out in the form of interest charges. Additionally, land and natural resource rents – along with interest – are the easiest to tax, because they are highly visible and their value is easy to assess.

Pressure to narrow existing budget deficits offers a timely opportunity to rationalize the tax systems of Greece and other PIIGS countries in which the wealthy avoid paying their fair share of taxes. The political problem blocking this classical fiscal policy is that it “interferes” with the rent-extracting free lunches that banks seek to lend against. So they act as lobbyists for untaxing real estate and monopolies (and themselves as well). Despite the financial sector’s desire to see governments remain sufficiently solvent to pay bondholders, it has subsidized an enormous public relations apparatus and academic junk economics to oppose the tax policies that can close the fiscal gap in the fairest way.

It is too early to forecast whether banks or governments will emerge victorious from today’s crisis. As economies polarize between debtors and creditors, planning is shifting out of public hands into those of bankers. The easiest way for them to keep this power is to block a true central bank or strong public sector from interfering with their monopoly of credit creation. The counter is for central banks and governments to act as they were intended to, by providing a public option for credit creation.”

**Editor:** and in light of the final sentence above - providing a public option for credit creation - on February 1, 2012 I received information about such efforts:

## Stopping Foreclosures - Local Action Plans

Given that counties represent the governmental entity most closely associated with foreclosures, what is needed is an immediate action plan focused on counties that can be implemented by counties. Our plan spells out what counties and residents can do to address this problem now.

<http://www.mainstreetmatters.us/docs/ActionPlanToStopForeclosures.pdf>

### Occupy the Neighborhood: How Counties Can Use Land Banks and Eminent Domain

Foreclosed and abandoned homes are blighting neighborhoods. Straightening out the records and restoring the homes to occupancy is clearly in the public interest, and the burden is on local government to do it.

<http://www.truth-out.org/occupy-neighborhood/1326472096>

### Public Banking in America - Legislative Guide

<http://bit.ly/xhQjwI>

**A Solution to the Foreclosure Crisis** <http://www.mainstreetmatters.us/solvingforeclosures>

# The McKinsey Study on the Circular Economy

The report was commissioned by the **Ellen MacArthur Foundation** with the support of its Founding Partners, **B&Q, BT, Cisco, National Grid and Renault**. **McKinsey & Company**, a global management consulting firm, provided the overall project management, developed the fact base and delivered the analytics. The report draws from the input and expertise of a wide range of academic and business leaders.

To describe this opportunity to generate rapid and lasting economic benefits and enlist broad support for putting it into full-scale practice, we have structured this report into five chapters, each answering basic questions about the circular economy and the changes it implies:

The limits of linear consumption outlines the limits of the current 'take-make-dispose' system and assesses the risks it poses to global economic growth.

From linear to circular—Accelerating a proven concept frames the opportunities presented by a circular economy, the origins and early successes of the proven concept of circular business models, and the ways in which they drive value creation.

How it works up close—Case examples of circular products demonstrates through detailed case studies the many ways in which companies can benefit from circular business models and the key building blocks needed on a systemic level to shift business in this direction.

An economic opportunity worth billions—Charting the new territory maps out what moving towards a circular economy could mean on a macroeconomic level and how circular business models could benefit different market participants.

The shift has begun—'Mainstreaming' the circular economy proposes winning strategies for businesses to bring the circular economy into the mainstream and a roadmap for an accelerated transition towards a circular economy.

**Editor:** [The article on the next page](#) is from the January 31 Guardian. It is quite new and so has not garner much comment yet, but the big names behind it plus its launch and the Davos forum seem potentially very significant. B&Q is the British equivalent of Home Depot.



# A circular economy tackles the root problems of overconsumption

Moving to a circular economy model would provide opportunity for immediate and long-term economic growth

It was inevitable that the World Economic Forum's annual meeting [in Davos](#) would concentrate on the current global economic crisis, and there were numerous discussions regarding the best way to help drive economic growth. However, there was also an increasing focus on the fundamental way that the wider economy works.

The past decade has seen rapid technological evolution across all major industry sectors, yet strangely, despite recent events, very little change within the economic model itself. The economy is still based on a linear "take, make and dispose" model. We take minerals, oils and metals out of the ground, make something with them using fossil fuels and then throw them away. This is all well and good until a mixture of market drivers – including security of supply, price volatility and cost of disposal – come into play. It is increasingly apparent that attempting to tinker with the existing system, and simply managing the extent of our consumption, does not tackle the root cause; it will merely delay the inevitable. We need a new way of doing things.

[Towards the Circular Economy](#), commissioned by the Ellen MacArthur Foundation, is the first report to analyse the international business case behind the idea of shifting from a linear to circular economy.

The circular economy offers a different business model, and a different way of looking at the system as a whole. The essence of the circular economy lies in designing goods using technical materials to facilitate disassembly and re-use, and structuring business models so manufacturers can reap rewards from collecting and refurbishing, remanufacturing, or redistributing products they make. In this model all things are made to be made again, ultimately using energy from renewable sources. Companies shift to focusing on selling performance in the place of product, and consumers now become users. While technical materials are cycled in perpetuity at the highest possible value chain, biological materials, within a circular economy, are designed by intention to be non-toxic, and can safely cycle through agricultural systems building capital in the form of phosphates and other valuable nutrients.

Crucially in these tough economic times, the report highlights that there is an opportunity for companies to realise immediate and long-term economic growth within this model.

Using product case studies and economy-wide analysis, the report details the potential for significant benefits across the EU. It shows that embracing the circular economy model could lead to an annual economic opportunity of up to \$630bn a year towards 2025. At a time when the economy is stalling, this change could stimulate economic activity in the areas of product innovation, remanufacturing, refurbishment and in turn generate employment.

The numbers are very conservative. They are based on medium complexity manufacturing sectors that represent just 48% of GDP contribution of EU manufacturing. The analysis assumes the addition of only

one product cycle, less than 25% materials recovery and uses today's technologies. Yet many cycles and higher recovery rates could be possible through technological innovation, which would lead to rapid improvements, additional economic benefit and job creation.

Value would be created throughout the manufacturing process. All of the cases explored in depth in the report show a chance for value creation by preserving the embedded labour, energy and material costs in finished products. In mobile phones, for example, 50% of material input costs could be saved by the effective use of remanufacturing.

When the [Ellen MacArthur Foundation](#) was launched, our target audience was the classroom, as we looked to energise young people into taking a fresh look at the way the economy works. The audience now wanting to listen is the boardroom. Business is starting to see the potential that this framework offers.

I presented the report to a packed room at the World Economic Forum in Davos, with CEOs from international blue-chip companies looking closely at the opportunities posed for their respective sectors. The report highlights how businesses can realise the significant benefits of a model that de-couples growth from resource constraints. It also indicates that cross-sector [collaboration](#) will be crucial for speed of progress.

A transition on the scale required to move on from the dysfunctional linear economy model requires a clear view of exactly what we are trying to achieve, combined with a coherent framework for getting there. The circular economy provides this.

*[The Ellen MacArthur Foundation](#) is a charity with the aim of inspiring a generation to re-think, re-design and build a positive future. The foundation is supported by a number of founding partners – B&Q, BT, Cisco, National Grid and Renault. The report is available to download at [www.thecirculareconomy.org](http://www.thecirculareconomy.org)*

## Steve Keen

### *Debunking Economics the Naked Emperor Dethroned*

#### George Monbiot on Steve Keen

In an October 6, 2011 lecture at Oxford as summarized by George [Monbiot](#) in his blog we read: "The official view, as articulated by Ben Bernanke, chairman of the Federal Reserve, is that both the first Great Depression and the current crisis were caused by a lack of base money. Base money, or M0, is money that the central bank creates. It forms the reserves held by private banks, on the strength of which they issue loans to their clients. This practice is called [fractional reserve banking](#): by issuing amounts of debt several times greater than their reserves, the private banks create money that didn't exist before. Conventional economic theory predicts that when the central bank raises M0, this triggers a "money multiplier": private banks generate more credit money (M1, M2 and M3), boosting economic growth and employment."

"Bernanke, echoing claims by Milton Friedman, believed that the first Great Depression in the US was propelled by a fall in the supply of M0, which, he said, "reinforced ... declines in the money multiplier."(5) . . . Steve Keen argues that it's not changes in M0 which drive unemployment, but unemployment which triggers changes in M0: governments issue more cash when the economy runs into trouble."

"He proposes an entirely different explanation for the Great Depression and the current crisis. Both events, he says, were triggered by a collapse in debt-financed demand(7). [Aggregate demand](#) in an economy like ours is composed of GDP plus the change in the level of debt. It is the sudden and extreme change in debt levels that makes demand so volatile and triggers recessions. The higher the level of private debt, relative to GDP, the more unstable the system becomes. And the more of this debt that takes the form of Ponzi finance – borrowing money to fund financial speculation – the worse the impact will be."

"Keen shows how, from the late 1960s onwards, private sector debt in the US began to exceed GDP. It built up to wildly unstable levels from the late 1990s, peaking in 2008. The inevitable collapse in this rate of lending pulled down aggregate demand by 14%, triggering recession(8)." [snip]

"Now, he tells us, a failure to address these problems will ensure that this crisis will run and run. The "debt-deflationary forces" unleashed today "are far larger than those that caused the Great Depression."(10) In the 1920s, private debt rose by 50%. Between 1999 and 2009, it rose by 140%. The debt-to-GDP ratio in the US is still much higher than it was when the Great Depression began(11)."

"If Keen is right, the crippling sums spent on both sides of the Atlantic on refinancing the banks are a complete waste of money. They have not and they will not kickstart the economy, because M0 money supply is not the determining factor."

"President Obama justified the bailout of the banks on the grounds that "a dollar of capital in a bank can actually result in \$8 or \$10 of loans to families and businesses. So that's a multiplier effect"(12). But the money multiplier didn't happen. The \$1.3tn that Bernanke injected scarcely raised the amount of money in circulation: the 110% increase in M0 money led not to the 800 or 1000% increase in M1 money that Obama predicted, but a rise of just 20%(13). The bail-outs failed because M0 was not the cause of the crisis. The money would have achieved far more had it simply been given to the public. But, as Angela Merkel and Nicholas Sarkozy demonstrated over the weekend(14), governments have learnt nothing from this failure, and seek only to repeat it."

"Instead, Keen says, the key to averting or curtailing a second Great Depression is to reduce the levels of private debt, through a unilateral write-off, or jubilee. The irresponsible loans the banks made should not be honoured. This will mean taking many banks into receivership(15). Otherwise private debt will sort itself out by traditional means: mass bankruptcy, which will generate an even greater crisis." [Monbiot concludes](#).

**COOK Report:** In other words in the United States by 2008, there had been such an extraordinary buildup of credit underwritten by the banks under opaque conditions. Due to the host of new financial instruments including credit default swaps and unregulated hedge funds combined with mortgage securitization, all banks knew they were extremely leveraged. That is they knew they had many times the amount of "assets" or loans on their books than they had reserve capital to back up these loans.

Because of the opacity of the conditions in March of 2008 when the creditors of Bear Stearns which needed to turn over several billion dollars in loans every night decided over very short period of time that they couldn't trust Bear Stearns to repay those loans. When Bear Stearns supply of credit dried up, it did so very rapidly and it failed quickly. By the beginning of September and similar situation emerged at Lehman Brothers and when its counterparties decided they could no longer trust Lehman to repay their overnight loans, Lehman also failed.

In early 2012 we have the similar kinds of events going on in Europe where American money market funds have pulled out of European sovereign debt and where banks that bought Greek bonds leveraged 30 to 40 times over their reserve capital that is to say they bought the bonds essentially on credit. The assets backing up those bonds are now highly questionable value just as subprime mortgage securities were in the US 4 years ago. And we read that European banks rather than investing money injected into them by the European Central Bank are using the funds to restock their reserves as happened in the US in 2009. With austerity budgets being rammed through in the majority of the national economies of the European Union, aggregate credit demand is falling and, even if the banks knew whom they could trust for interbank trading, their loan activity and under Steve Keen's point of view their ability to create money is falling rapidly.

Shadow banking in hedge funds and in derivatives and other financial instruments creates a situation where the maintenance of trust is paramount because no one really does know who has what. No trust and welcome to a liquidity trap where everything dries up and where giving trillions to the banks doesn't help because they don't know the condition of the banks with which they are being asked to do business.

## **Steve Keen – Taking Debt into Account in Economic Policy Making**

The Australian economist Steve Keen is, I believe, considered to be of the MMT persuasion. Furthermore since he first predicted the 2008 crash in December of 2005 he has become -- along with Nouriel Rubini and several other colleagues who warned that the debt bubble was not sustainable -- someone who is increasingly listened to by those who would prefer to reject the current broken mess. In the next section Keen talks about Hyman Minsky and point of view of post-Keynesian economic theory that he is developing.

His 2001 book: [\*Debunking Economics the Naked Emperor of the Social Sciences\*](#) he wrote as a critique of the irrelevance of neoclassical economics to the situation in which the global economy finds itself. I have transcribed below sections of interviews he has given within the last year (mainly in the autumn of 2011 to the Soros funded Institute for New Economic Thinking) on his just published revision called *Economics the Naked Emperor Dethroned*.

Then, in the final much longer section that I have taken from the Manifesto of his current blog on debt, he gives a policy prescription that seems to me to offer the best hope of a way out -- absent total global economic collapse and the chaos and war that such would be likely to unleash.

Here is Keen's very sharply focused and brief description of the current situation. "The fundamental cause of the economic and financial crisis that began in late 2007 was lending by the finance sector ***that primarily financed speculation rather than investment***. The private debt bubble this caused is unprecedented, probably in human history and certainly in the last century (see Figure 1). Its unwinding now is the primary cause of the sustained slump in economic growth. The recent growth in sovereign debt is a symptom of this underlying crisis, not the cause, and the current political obsession with reducing sovereign debt will exacerbate the root problem of private sector deleveraging." We shall return to this in part 2 below.

Keen gives an overview of his approach in his Debtwatch Blog. [There](#) he says:

"As an economist, I do something very unusual: I treat money seriously. Though this may be hard for those who have not done an economics degree to believe, economists have it schooled into them that "money doesn't matter"—that it is just a "veil over barter", there to make it easier to swap commodities than it would be if you actually had to find someone who had what you wanted, and wanted to sell what you wanted to buy.

The argument that persuades them goes something like this: "what would happen if you simultaneously doubled all prices and all incomes? Nothing!" In other words, if consumers are rational (now there's a much abused word, but I digress), they shouldn't care about the absolute prices of goods, just their relative prices. So doubling all prices and doubling a consumer's income shouldn't cause her to do anything different (but of course, changing relative prices would alter behaviour).

Bollocks. Double all prices and my income, and I'd be much better off because my mortgage payments would take less of my income (even if interest rates were also doubled). That's because I'm in debt—I have a mortgage. And you can't simply double interest rates to reach the same outcome as doubling prices, because debt repayment dynamics make the whole thing "nonlinear": include debt seriously in your analysis of consumption, and the "veil over barter" vision of money collapses. But this "inconvenient truth" is omitted from economics—not because economists are deliberately hiding it, but because they have deluded themselves about the nature of money.

I take it into account, and as a result I get a very different picture of how the economy operates than do conventional ("neoclassical") economists."



# Part 1 Steve Keen: INET Videos on The Naked Emperor Dethroned

## Soros Institute for New Economic Thinking (Background)

George Soros, the billionaire financier and philanthropist, has joined the search for new ideas. Mr Soros funded a new organisation called the Institute for New Economic Thinking which for the past two years has handed out millions in grants, funding research projects that look at economics in fresh ways.

[In September 2011](#), the institute gave more than \$125,000 to an Australian. Steve Keen, the associate professor of economics and finance at the University of Western Sydney, has won a grant to turn his money-based model of the macro-economy - which draws on the theories of economists such as Hyman Minsky and John Maynard Keynes - into a computer program for students and economists. Professor Keen says the program will make it easy to develop "dynamic" models of the economy that incorporate money and debt - something that orthodox models do not do. "[About] 99 per cent of economic models assume money doesn't exist. They assume you live in a barter system ... That's why they didn't see the financial crisis coming," he said. [Read more.](#) [Source](#) and all [seven sections below](#).

## A Money Based Model of the Macro Economy



**Keen:** I wrote the 1st edition of the book back in 2001 because I could feel that a crisis was coming, and I had to explain why ordinary economics was so useless in explaining what would happen.

**Interviewer:** And now when you take apart economic profession in the 2011 revision of your book *The Naked Emperor Dethroned* what are the examples you use what are the main themes that you zero in upon?

**Keen:** I think traditional economics starts with the belief that you must explain everything by two intersecting lines – supply and demand. Of course there are versions of the theory that are more elaborate but this is the basic introduction that beginning students get. With some of the simplest logic that you can mention it is possible to show that the two intersecting lines simply don't work. This is simply not how a market system—even an isolated single market—can behave.

A solid critique of this by Sidney Gorman in the mid-1950s has been a part of economic literature. Gorman demonstrated that you could not aggregate demand curves of two individuals whose demands have all the right properties and get a general market demand curve looking anything like the two individual's demands unless you assume that the curves are clones of each other -- that they are identical in other words. And that they were buying products that were also clones of each other. The flaws in the theory are so deep and so fundamental that, at the most simple level, it appears plausible. Therefore what I'm doing is going beneath the plausible level to show that it simply does not work.

It should not be as easy for me to be able to deconstruct economics as I have done. But unfortunately it is quite possible.

**Interviewer:** And you won an award for having foreseen the crisis. Tell me about that.

**Keen:** I started warning of the crisis back in December 2005 but I began making those warnings in Perth Australia. The award for predicting the crisis along with two others (Nouriel Roubini and Dean Baker) was an international award sponsored by a group called the Real World Economics Review. The also had what they called the dynamite award which was given to the single economist most responsible for blowing up the global economy. That was won by Alan Greenspan.

## **Minsky Offers a Realistic Framework-- Interview Part 2**

**Interviewer:** In your new book chapter 13 you talk about Hyman Minsky. How did he see it coming?

**Keen:** As a first-year student I was originally a very strict believer in neoclassical economics but then I had a transformative experience during my 1st year and then I thought this is nonsense. The theory doesn't hold together. But a lot of people who become critical of economic theory become radically anti capitalist and join socialist movements and things like that and I thought well this is just exchanging one religion for another. I was reading widely in the history of economic thought and I found Minsky's work in the 1980s and I thought that this really brings together both the positive and negative aspects of capi-

talism in a realistic framework.

I decided from that point on and my academic work would be to put Minsky's model into an mathematical framework, because, as you may know, back in 1957 he attempted to build a mathematical model which went nowhere. It was based on Hicks' trade cycle model and abandoned it when he got nowhere with it. As a result, he stayed focused on the verbal model. I could see how to take that verbal model and give it a mathematical foundation that was much richer than what the verbal model used.

Consequently I started off from Gorman's work on a growth model from 1967. I took this as a basic foundation and simply added in the fact that people in a boom borrowed money to invest in hopes of making even more – and that they would have to repay that borrowing during a slump. But what I got out of this was that as you went through boom and debt repayment there was a possibility to converge not only to equilibrium but that there was also equally a possibility to converge to a crisis where you have a process that debt ratchets up and down and then up again still higher and then you find that the economy takes on so much debt that it cannot recover equilibrium and it breaks down.

**Interviewer:** What was it inside your model or your vision that made the alarms go off?

**Keen:** My vision was indeed Minsky's vision that said: if you are going to have a model of capitalism, that model must be able to generate a depression as one of its potential states because capitalism has had depressions in the past. And so, if your model does not allow for depression, you are not modeling capitalism. This is always been my framework and the central part of my framework was Minsky's vision of the role that private debt plays in the financial cycle – a vision largely inspired more by Fisher than by Keynes.

That basic foundation argued the importance of the level of private debt to income. It said that during a boom debt grows faster than income and during a slump more slowly. And that there is a tendency for this debt accumulation to cycle up over time.

In 2005 I got asked to testify in an expert witness case. It was a predatory lending case and in writing my report I had to look at the debt to GDP ratio. I had not looked at the data in 5 or 6 years but I took one look at the data and its rate of growth and thought "holy hell it's growing exponentially." There has to be a breakdown at some point. Someone has to raise the alarm. And that in Australia, it might as well be me.

**Interviewer:** were you raising the issue about Australian data, American data, or data in the OECD in general?

**Keen:** I was raising the question about Australian debt followed about 5 min. later by the same question about American debt. The original sentence came as a kind of gut level guess on my part but once I routed I realized that since I was writing as an expert witness I had better not make the claim without data to back it up. I assumed that I would have to moderate my original statement. But after an hour of comparing the 2 sets of data and mapping them over time I was absolutely floored by the result -- the

curve indeed was exponential.

I then calculated the American data and I found that the rise was not quite as steep but that it had reached an even higher level and I thought we are now going to be on a path of global collapse because, if this was happening in similar ways in both countries, it could not be sustainable. And I have got to raise the alarm not just locally but also internationally.

### Credit Creation Interview Part 3

**Interviewer:** it is interesting that the American economist Jeffrey Sachs said to me you know I had no idea that derivatives and credit default swaps had grown hyper exponentially. When the crisis happened he was worried about poverty and what would happen in Africa but he also said you know none of my colleagues in financial theory had any idea that this had happened and not one of us. We tapped each other on the shoulder and said you “know this is insane.”

**Keen:** That's because their neoclassical training blindsides them to the role of debt in the economy. Now you see Krugman's most recent paper where he is actually trying to model the crisis and see how debt could start the crisis and he actually starts from the a priori argument that the level of debt does not matter. It is only the distribution that can have any impact because one person's debt is another person's asset.

This is the neoclassical vision of lending as someone who is the Saver handing over his money to someone who is a Borrower. The result is as the saver's capacity to spend goes down and the Borrower's goes up we get an equilibrium where there is no aggregate effect. Such a conclusion is completely ignorant of the way money is actually created in a credit economy. This is something that we have known since the 1960s and the best statement of this was made by Alan Holmes who was the vice president of the New York Fed at the time.

Now the vision that we still teach students is that you need reserves to lend and he said in the real world lending is merely the transferring of purchasing power from savers and borrowers. Now in 1969 Allen Holmes said in the real world banks lend money first creating new deposits and look for the necessary reserves against their lending only later. So this means that there is an endogenous increase in spending power as debt grows. And in being blindsided by this; by believing that nothing more is happening than a transfer of spending power from one saver to the borrower, they completely ignore that this spending power increases far faster than the rate of reserves held against it and this leads them to completely ignore the rate of change in the level of private debt.

### Predicting a Crash Can Make you Lonesome -- Interview Part 4

**Interviewer:** Let's talk about what you refer to as a credit impulse.

**Keen:** Yes Biggs Meyer and Pick beat me to that one because I was a bit of a mathematical coward. I had a relation between the change in debt and the current level of the economy and asset prices. I

knew that the relation implied change in the acceleration of debt would be equal to a rate of change in the level of economic activity and asset prices but I was skeptical that the economic data would actually support the change in correlation between a 1st order differential and a 2nd order differential. So I did not actually explore it.

They beat me to it and called it the credit impulse. I have since run with it and prefer to call it the **credit accelerator**. I think this is a more genuine term because **it is the acceleration of debt that drives change in economic activity**. This is a part of the explanation of why financial crises occur and why we see them 1st in the financial industry before they appear in the general economy. But it is a permanent thing. Credit impulse implies that it comes and that it goes. But acceleration is always with you and I think what we observe is steady and does not disappear for a time.

**Interviewer:** How did it feel in 2005 to come out with this statement first about Australia and then about the United States? What was the sociology of putting forth a view in the middle of a boom that a bust was closer at hand than people assumed?

**Keen:** Actually I have to thank Stephen Long who practically invented the. He was one of the surprisingly large number of journalists who had a gut feeling that something big was building up there and that something was wrong not only in the Australian market but also abroad from what they could see. I actually got a lot of receptivity from Australian journalists for what I was saying. But then I came onto the radar of conventional economists. And I wish I had the exact quote of what happened when a neo-classical guy was told what my views were by the journalist interviewing him and replied “well I think Keane is in a minority of one.”

When I became publicly visible, I became what Australians call a tall puppy and I experienced having the other economists have a go at me and then made the mistake of answering a question from an interviewer about what the implications of all this were for housing prices in Australia. I said that in Japan when the housing price bubble burst in 1990, housing prices fell roughly 40% of the next 10 to 15 years. I see no reason why we will avoid the same fate. Well I soon found out that I just raised the red flag against the Bulls of the property sector. I soon found myself under attack from the property lobby and if I thought there was viciousness in the academic sector I soon found that it had nothing to do with what could be dished out by the realtors or ‘property lobby.’

It is difficult to be out there saying stuff which is contrary and which goes against what a lot of people hope will happen and then to keep on doing that. But I couldn't see how I was wrong on this and concluded therefore that I better keep on going. I really feel however for what Peter Schiff has been through on this even though he has a very different economic analysis than I do. I have seen him on panels in the States being laughed at. So it is a personally hard thing to go through.,

## **We Must Cancel the Debt Interview Part 5**

**Interviewer:** So here we are in September 2011 going forward. What do you see for Australia, the United States Europe and so on?



**Keen:** We are in a depression and the denial of that situation is a major reason for why it is going to last for so long just like in the 1930s we are repeating the same process and making the same mistake in believing that it is just a temporary downturn. Because just like in the 1930s we are ignoring the role of private debt. And since, unlike the 1930s when private debt was 175% of annual gross to mastic product, we are starting from a position in 2007 where private deadhead. 300% of annual GDP, it will take us an enormously longer amount of time to pay that debt down than it did back in the Great Depression. And therefore I see about 10 to 15 years, if we're lucky, of a slow grinding down of that debt—

**Interviewer:** A lost decade?

**Keen:** Yes a lost decade and maybe even two lost decades.

**Interviewer:** Now when you talk about a depression, people think of 24% unemployment and soup kitchens and that sort of thing. From your point of view what policies could be created to ameliorate the problem.

**Keen:** the way you get out of a debt induced crisis is by abolishing the debt that never should have been created in the first place . You can do it the slow way by the grinding process of bankruptcy or you can follow the work of David Graber in his book *Debt the first 5000 years* - a very useful book in the history of economic thought and for policy purposes as well. If we don't abolish the debt you are creating, it will continue dragging us down forever. The financial sector fundamentally has the responsibility for having created this debt. It should never have lent the money in the first place. But if we continue honoring the debt which was dishonorably extended, we face an incredibly long period of slowly reducing it by grinding it down through bankruptcy.

**Interviewer:** Is there a role for this fiscal policy?

**Keen:** There is a role for fiscal policy that provides a cash flow that otherwise would not be there if the government itself in its spending was not running a deficit. Now I am not part of the camp that says we can solve the entire problem by big enough deficit, but certainly if you have the private sector's creation of credit in creation of money declining, then the last thing you want is to have government spending declining at the same time because then you will have to forces both pulling monetary demand out of the economy at the same time rather than just one.

## Europe UK, Japan China and Brazil Interview Part 6

**Interviewer:** The UK Europe China Japan Brazil how do all of these countries relate to what is going on now

**Keen:** Japan has been a carbon copy of what we're going through now. If you want to look at what is going to happen to America, you must look at what happened in Japan. In 20 years later they are still in that same situation. They have not bitten the bullet; they have not abolished the debt; they have kept

the zombie banks alive rather than shutting them down and recapitalizing them which they should've done. America is making the same mistakes.

As far as England goes, it is harder to get as good economic data on what is happening there and then it is in the US or Australia but on the basis of what can be found in those years that the level of private debt to gross to mystic product in the United Kingdom may have actually been higher than that were attained in the United States.

As far as the rest of Europe goes, I think the reason that things have not gotten as bad there as they have in the Anglo-Saxon countries is that laws affecting the relationship of landlord's to tenants are much more generous towards the tenants. It is more difficult for the landlord to evict the tenant and flip the property over to another landlord during a speculative bubble. well you did have a bubblehead in Ireland and Spain in the rest of Europe you did not have nearly as much of the bubble as in the United Kingdom. Consequently, the accumulation of private debt on the European continent was not as great as in the US and in France and Germany you had much less off-shoring of manufacturing resources than you did in America. They have not denuded their industrial sector nearly to the extent that has happened in the United States.

Europe's biggest mistake was the Maastricht Treaty and that is what is bringing them unstuck right now. Creating that treaty was a bit of neoclassical fantasy in the 1<sup>st</sup> place. The idea that budget deficits could not be more than 3% of GDP and that accumulated sovereign debt could not be more than 60% of GDP were insane rules which you been compounded by the fact that the European Central Bank is not really a central bank. It funds the European Parliament but none of the nations of Europe and it is basically an example of a situation where in the United States the Federal Reserve would fund Washington DC and nothing else -- Letting the states fend for themselves.

**interviewer:** So how do China Brazil and India fit in?.

**Keen:** China is most interesting case. One of their goals was that they wanted to relay Western production and American production in particular and China. Consequently one of the rules was that if you are going to export production to China and import from there without paying tariffs, you had to accept a Chinese partner in that partner would have 49% ownership of the joint enterprise by the end of 7 years. They had seen the rest of the Third World to do this before them. The result for them has been quite successful in the biggest transfer of industrial power and intellectual power in human history. But at the same time it is still a communist government and I don't think enough Americans and Australians for that matter are aware of the degree to which the Communist Party wields power there and consequently may ignore the rules that a normal capitalist organization has to follow. Such as not honoring debt or abolishing debt. They will do it

I believe that they are in a bubble . That they have a property bubble and an industrial bubble where they have far more debt than they should given the size of their industry. When when they are real estate bubble and industrial bubble bursts I believe that they will handle the outcome in a far different way than a capitalist nation of North America or Europe would handle it. They will not pussyfoot around. I

can see them going through a downturn As but the approach they take to those events will not be the kind of approach that their decentralized Democratic Western capitalist counterparts would take.

**interviewer:** do you see bubbles in Brazil or India?

**Keen;** India to some extent but coming from the huge demand of a suppressed underdeveloped economy that has been able to take advantage of the displacement of Western production and, especially in India's case taking advantage of English language skill transfers to the computer in service industries. There is a vibrancy there and I don't see them having problems since they are coming from a much lower base.

I don't much follow Brazil but I think they've learned many useful lessons from its long period of under development and being under the yoke of the IMS and IMF and familiar with the kinds of restrictions likely to be imposed they seem to have been able to break away from this while building an industrial base at the same time.

## Urging Economists to Put Money into Their Models Interview Part 7

**interviewer:** Looking forward to your research and the grant that you are doing with INET. What are you trying to build? What are your objectives?

**Keen:** The fundamental aim is to build a monetary model of capitalism. Now that might sound bizarre to anyone who hasn't done economics but because neoclassical economics have dominated model building for the last 40 to 50 years and neoclassical economics functions in terms of market equilibria without considering the impact of money on those markets. I think that we have to build a monetary framework from the ground up. The framework that I'm using starts from the circles of Augusto Graziani. First of all, to have a monetary economy, you must be using a monetary token as your monetary element because if you are using a commodity like gold you are working with a barter system.

Now with a monetary token-based system, that is a system of Fiat currency like the dollar, you must have a 3 sided system; buyer and a seller and a bank as intermediary. The bank makes the transfer between the accounts of the monetary buyer and seller and when then transfer is entered on the books the physical transfer of the goods takes place.

I have used this combined with the idea of double entry bookkeeping to build a simple accounting framework that exhibits the idea of endogenous money. I have an accounting framework coming out from the Journal of Economic Behavior and Organization sometime this year that will also combine a monetary and physical model of the economy. And what I'm doing with your grant is developing a software package that is easy to use that doesn't require the knowledge of differential equations and programming languages like MathCad and Mathematica -- one that can be used as a teaching tool but also is useful as a development and research tool.

So engineers will be familiar with tools like the “flowchart” paradigm developed to model physical processes, and implemented in numerous software programs (Simulink, Vissim, Vensim, Ithink, Stella, and so on). They are not feasible to use for what I am doing because their tabular organization. This is a monetary system where you have double entry bookkeeping and one that is very difficult to use in the context of physical modeling that depends on flowcharts. What I am doing consequently is developing a combined tool that allows you to use the flowchart dynamics along with the tabular system for measuring monetary flows so you can have a GUI-based way of building a research model for monetary capitalism. It will be something in first-year students can play with and will be a lot sexier and more informative than intersecting supply and demand curves.

The objective is to get a realistic model of capitalism because we are now seeing the catastrophe that follows from a theoretical supposedly objective ideological system of capitalism that fails all attempts at mapping to the reality that we are experiencing.

A two part lecture explaining the above [is found here](#).

## Behavioral Finance Lecture 09: Modeling [Endogenous Money](#)

by [Steve Keen](#) on October 20th, 2011 at 1:04 pm

Posted In: [Debtwatch](#)

In this lecture I continue the development of the QED model of a pure credit economy began in the last lecture, including modeling production and developing a pricing equation to produce a combined monetary-physical model

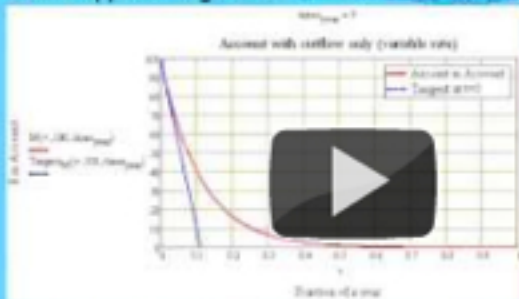
Powerpoint Slides ([QED Files Free download](#); DebtWatch Members: [Part 1](#) [Part 2](#); CfESI members: [Part 1](#) [Part 2](#))

In the second half of the lecture, I use the model developed in the first half to show that money is not neutral in a credit-based economy—a higher rate of money creation results in a fall in unemployment—and also model a credit crunch. I also model two government policies to counter a crunch: giving money to the banks (which Obama did) and giving it to the debtors (which the Australian government did). Conventional money multiplier theory argues that the former is more effective; I show that the latter is about three times better than the former.

## Keen Behavioural Finance 2011 Lecture 09

### Parameter Values and Time Lags

- Rule applies in general



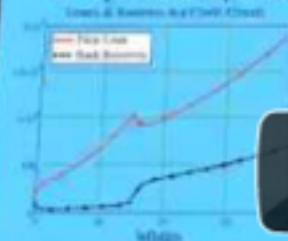
- Time where tangent to curve crosses equilibrium value of function is the time lag of the function, expressed as fractions of the time unit (here, years)

Live URL for Lecture is <http://www.youtube.com/watch?v=SIN1Ygr96Q4>

## Keen Behavioural Finance 2011 Lecture 09

### Policy (2) Can a credit crunch cause a recession?

- 3 key financial parameters altered by factor of 2:



- Crunch causes temporary rise in unemployment AND sustained higher level
- Inflation turns to deflation and then lower sustained rate of inflation...

Live URL for Lecture is <http://www.youtube.com/watch?v=nGQBOi3xSM4>



## Minsky moment and equilibrium

The favorite buzzword of the neoclassical economists is equilibrium. The good thing about capitalism is not equilibrium. It is instability that implies innovation and change. That is the positive side. Now the other side of this equation is the fact that it enhances financial innovation and speculation and that is destructive. However, by focusing on equilibrium neoclassical economics unleashed both the bad and the good instability of capitalism. it unleashed the bad side unleashing an effect Frankenstein's monster or the financialization of the capitalist structure.

The finance sector has grown to huge size by making it possible to gamble on rising asset prices and that, in turn, has sucked us into huge unsustainable debt. As a result relatively little has changed since 2008 because of the difficulty of slowing down the momentum required by the huge financial sector that is several times the size that it was the end of World War II. What those who have been sucked into taking on the rising debt chasing rising asset prices do not realize that the accumulation of more and more debt is what is causing the asset prices to rise in the 1st place.

Private debt peaked at more than 300% of GDP in the United States an unprecedented amount. Public debt was only about one third of that. It is really the private debt that caused the huge problems.

<http://www.youtube.com/watch?v=GWLfV4J2a6w&feature=related>

and <http://www.youtube.com/watch?v=lnwEGeMQRCs&feature=related>

A **Minsky moment** is when over-indebted investors are forced to sell good assets to pay back their loans, causing sharp declines in financial markets and jumps in demand for cash.[1][2] In any [credit cycle](#) or [business cycle](#) it is the point when investors begin having cash flow problems due to the spiraling debt incurred in financing speculative investments. At this point, a major sell off begins because no [counterparty](#) can be found to bid at the high asking prices previously quoted, leading to a sudden and precipitous collapse in [market clearing](#) asset prices and a sharp drop in [market liquidity](#). [1]

The term was coined by [Paul McCulley](#) of [PIMCO](#) in 1998, to describe the [1998 Russian financial crisis](#), [2] and was named after economist [Hyman Minsky](#). The Minsky moment comes after a long period of prosperity and increasing values of investments, which has encouraged increasing amounts of speculation using borrowed money.

## Part 2 From the Debtwatch Manifesto

Here is Keen's Preamble or summary of our predicament:

'The fundamental cause of the economic and financial crisis that began in late 2007 was lending by the finance sector that primarily financed speculation rather than investment. The private debt bubble this caused is unprecedented, probably in human history and certainly in the last century (see Figure 1). Its unwinding now is the primary cause of the sustained slump in economic growth. The recent growth in sovereign debt is a symptom of this underlying crisis, not the cause, and the current political obsession with reducing sovereign debt will exacerbate the root problem of private sector deleveraging.'

The debt and asset price bubbles were ignored by conventional "Neoclassical" economists on the basis of a set of *a priori* beliefs about the nature of a market economy that are spurious, but deeply entrenched. Understanding how this crisis came about will require a new, dynamic, monetary approach to economic theory that contradicts the neat, plausible and false Neoclassical model that currently dominates academic economics and popular political debate.



Escaping from the debt trap we are now in will require either a “Lost Generation”, [that is to say 20 years or more of the current economic trauma] or policies that run counter to conventional economic thought and the short-term interests of the financial sector. Preventing a future crisis will require a redefinition of financial claims upon the real economy which eliminates the appeal of leveraged speculation.

As it grew more virulent, neoclassical theory encouraged politicians to remove the barriers to fraud that were erected in the wake of the last great economic crisis, the Great Depression, in the naïve belief that a deregulated economy necessarily reaches a harmonious equilibrium:

These three observations lead to the three primary objectives of Debtwatch:

1. To develop a realistic, empirically based, dynamic monetary approach to economic theory and policy;
2. To develop and promote a “modern Jubilee” by which private debt can be reduced while doing the minimum possible harm to aggregate demand and social equity; and
3. To develop and promote new definitions of shares and property ownership that will minimize the destructive instabilities of capitalism and promote its creative instabilities.

### **A realistic economics**

Regulators in the thrall of classical economics—such as Greenspan and Bernanke—rescued the financial sector from a series of crises, with each one leading to yet another until ultimately this one, from which no return to “business as usual” is possible.

[By preventing an earlier understanding of what was happening] Neoclassical economics therefore played an important role in making this crisis as extreme as it became. It is time to succeed where Keynes failed, by both eliminating this theory and replacing it with a realistic alternative.

### **Specific projects**

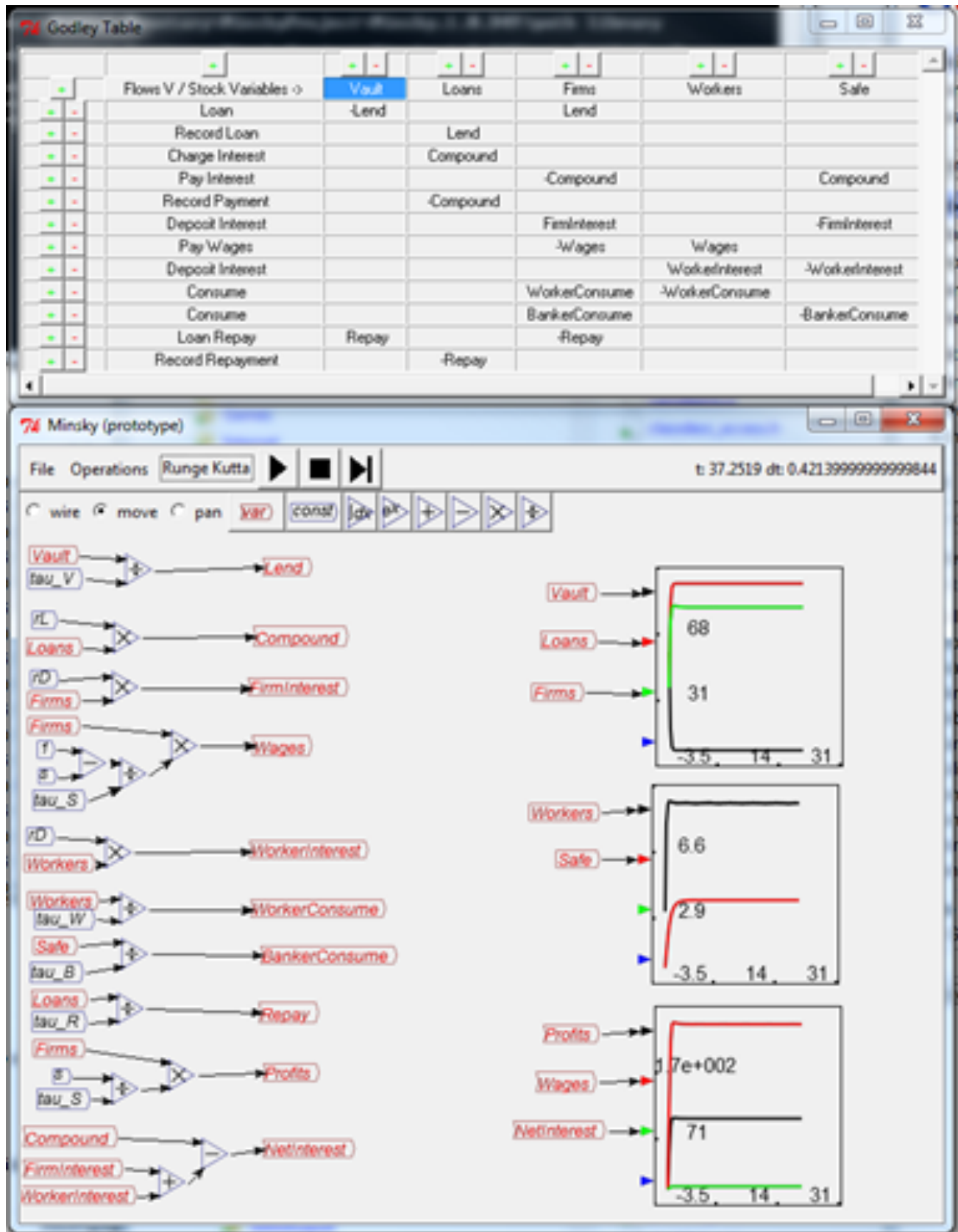
#### **The Center for Economic Stability Incorporated**

With the support of blog members, I have formed the [Center for Economic Stability Incorporated](#). Our objective is to develop CfESI into an empirically-oriented think-tank on economics that will develop realistic analysis of capitalism, and promote policies based upon that analysis. The success of CfESI is dependent upon raising sufficient funding to enable staff to be hired who can take over the administrative and web duties from me, and supplement my research efforts.

#### **“Minsky”**

Named in honor of Hyman Minsky, this is a computer program that enables a complex monetary system to be modelled with relative ease. The program implements the tabular approach to modelling financial flows developed in ([Keen 2008](#); [Keen 2010](#); [Keen 2011](#)), and combines this with the “flowchart” paradigm developed by engineers to model physical processes, and implemented in numerous software programs (Simulink, Vissim, Vensim, Ithink, Stella, etc.). It will be both a pedagogic tool to make dynamic monetary mod-

elling easy and attractive to new students, and a powerful research tool that will enable the construction of realistic, monetary models of capitalism. **Figure 5**

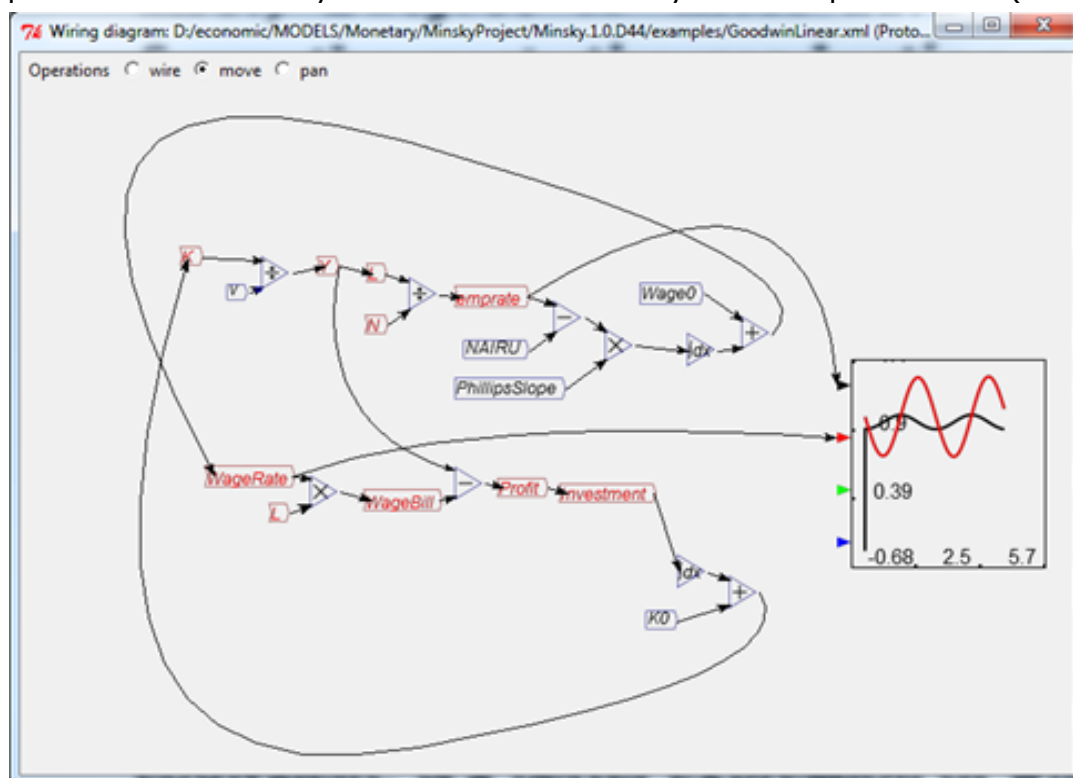


A first version of *Minsky* is already under development, with funding provided by a grant from the [Institute for New Economic Thinking](#). This version, to be completed in mid-2012, will enable the modelling of the economy as a monetary dynamic single commodity system. A prototype will be released in early 2012. A [Sourceforge page](#) is now operating, and we will shortly be opening it up for collaboration by Open Source developers.

Version 2.0 will enable multi-commodity input-output dynamics to be modelled, as well as a disaggregated banking sector. A seeding grant to help develop version 2.0 has been recently been received from the [Institute for New Economic Thinking](#). This will be combined with grants from other private entities to make an application for support under the Australian Research Council's Linkage program for up to A\$500,000 p.a. of further funding. One Australian firm has already committed to be an Industry Partner in this application, and I welcome additional support from other firms, whether Australian or otherwise (a minimum contribution of A\$50,000 over 3 years is required to qualify as an Industry Partner under ARC rules). Version 3.0 will add the capability to model international trade and financial flows. The program will be platform independent, and freely available under the GPL licence.

### Integrating Minsky with biophysical data

Minsky as it stands is purely a simulation tool. However, as part of a [United Nations Environment Program project "Resource Efficiency: Economics and Outlook for Asia-Pacific"](#), a precursor to Minsky has been linked to a biophysical database known as ASFF (for "Australian Stocks and Flows Foundation") developed by the [CSIRO](#) ([Turner, Hoffman et al. 2011](#)). Our long term ambition is to combine the two systems seamlessly, so that the physical parameters of Minsky will be derived directly from empirical data (which can be





derived for any national economy) and so that Minsky's fit to empirical data can be tested. The second stage of this process is part of the proposal for which I have just received further funding from [INET](#).

## Finance and Economic Breakdown

This will be a book-length treatment of the Financial Instability Hypothesis that I hope will form one of the foundations of a post-Neoclassical macroeconomics. Writing a book like this takes time and isolation, two things I have had very little of in the past six years since I first started warning of an impending economic crisis ([Keen 2005](#)). I have delayed the writing of this "magnum opus" for over a decade; in 2012-13 I intend devoting as much time as I can to writing it, which necessitates minimising time spent on other activities such as the maintenance of this blog.

## KeenData

Currently I pull in data from over 1500 different sources into a [Mathcad](#) worksheet on my PC. Mathcad, with a little help from my programming, does a wonderful job of analysing and displaying the data. But the naming conventions in my pseudo-database are ... a joke, there are none. Consequently, only someone intimately acquainted with the data can use my system, and at the moment that's just me. I also have to manually download files when they are updated. Thanks to Mathcad's visible equations, auditing the data is certainly easier than with a spreadsheet, but it is still difficult compared to a well-structured relational database.

A supporter has developed an online system, currently called Econodata, to overcome these limitations:

- The data is stored in a "Ruby on Rails" relational database;
- The system automatically updates data when it is altered by providers;
- The relational database system and a 4GL for derived data series makes auditing straightforward, and the system generates a tinyURL so that a complex data series or chart can be easily replicated by anyone; and
- It will be easily accessible and usable by subscribers to Debtwatch and CfESI.

Econodata is currently unavailable since it is being ported to a new server, and the database is relatively unpopulated. The database will also support my book *Finance and Economic Breakdown*, by making it possible for readers to verify any empirical charts for themselves simply by typing its TinyURL into a browser.

## Credit-aware Economic Indicators

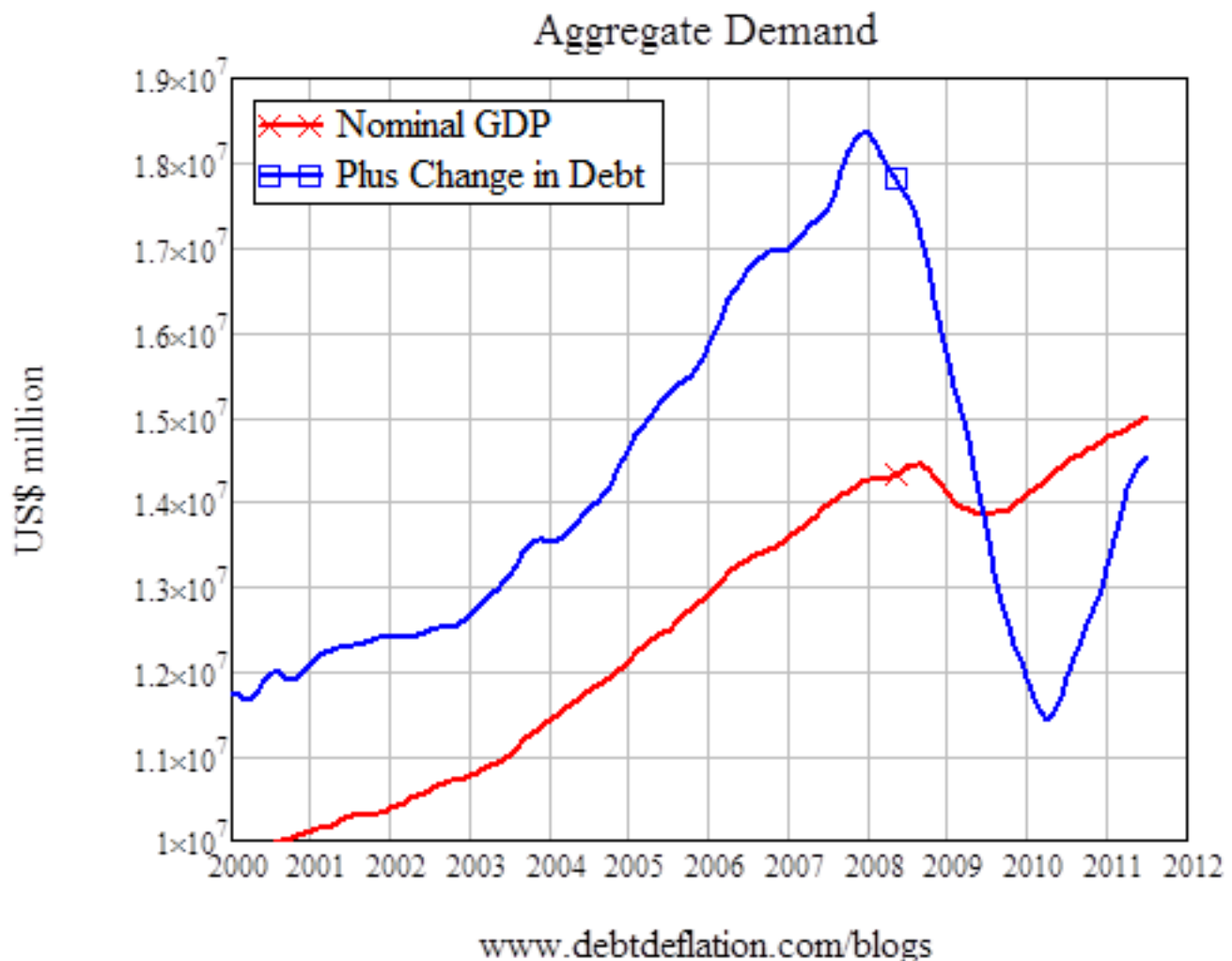
My debt-aware perspective on economics makes it easy to explain what [Bernanke has admitted is still inexplicable to him](#): where the crisis came from, and why it is persisting:

"Part of the slowdown is temporary, and part of it may be longer-lasting. We do believe that growth is going to pick up going into 2012 but at a somewhat slower pace than we had anticipated in April. We don't have a precise read on why this slower pace of growth is persisting..." His admission of ignorance

reflects genuine puzzlement with the economy's failure to reach what he likes to call escape velocity. (G.I. 2011)

In a nutshell, the change in total private debt is a key determinant of aggregate demand, and the turnaround from increasing debt boosting demand from incomes alone by 28% in 2008 to reducing demand below this level by 20 percent in early 2010 was **the** cause of the crisis.

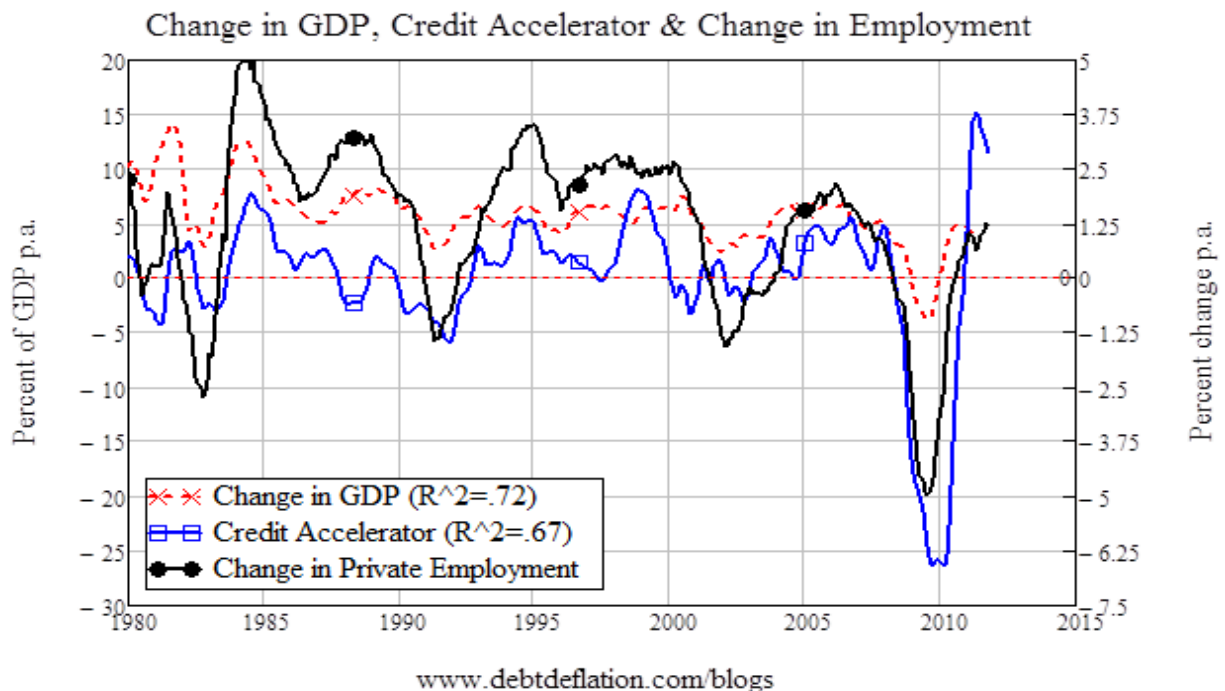
**Figure 7**



Similarly, the slowdown in the rate of decline of debt from its maximum rate of decline of almost US\$3 trillion p.a. to a mere \$340 billion p.a. is—along with the growth in government debt—the main reason why the crisis has attenuated slightly, rather than plunging into Great Depression depths of unemployment.

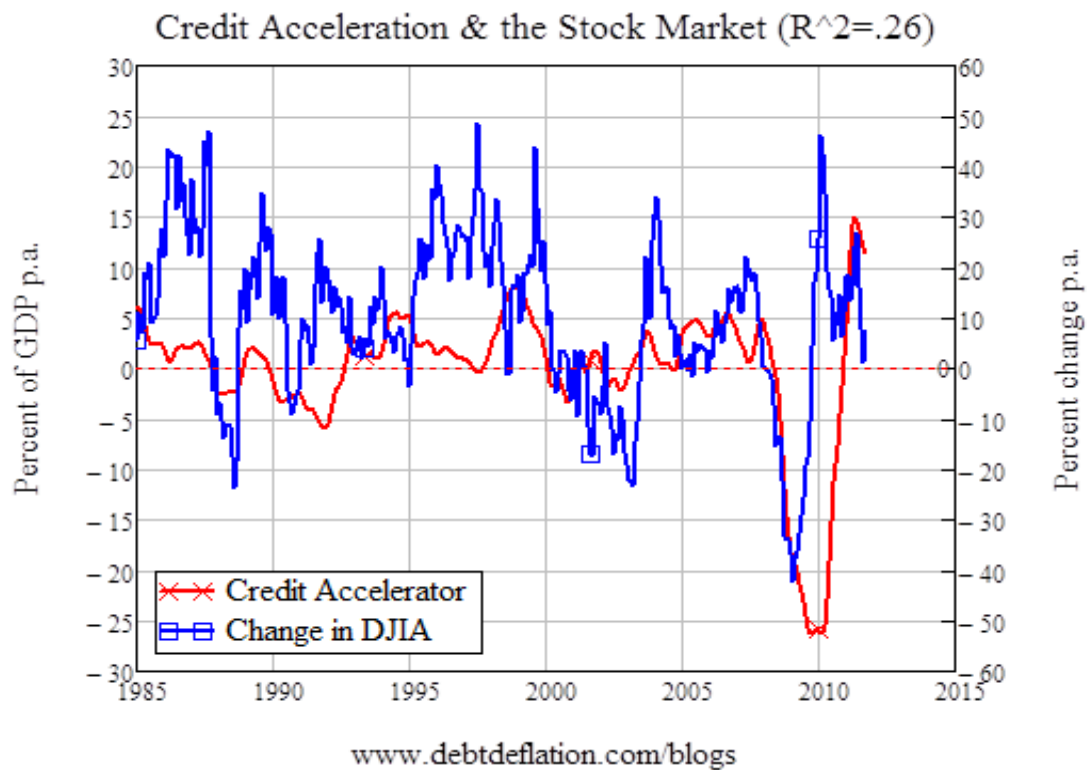


One indicator that has arisen out of my work—building on original work by Biggs, Mayer and Pick ([Biggs and Mayer 2010](#); [Biggs, Mayer et al. 2010](#))—is the “[Credit Accelerator](#)” ([Keen 2011, pp. 160-165](#)), which was first called the “Credit Impulse”. Both the change in income and the acceleration of credit determine the rate of change of economic activity, and these are correlated with each other (the  $R^2$  since 1980 is 0.56), but the economics collapse in late 2007 was clearly driven primarily by the rapid and unprecedented deceleration of debt.



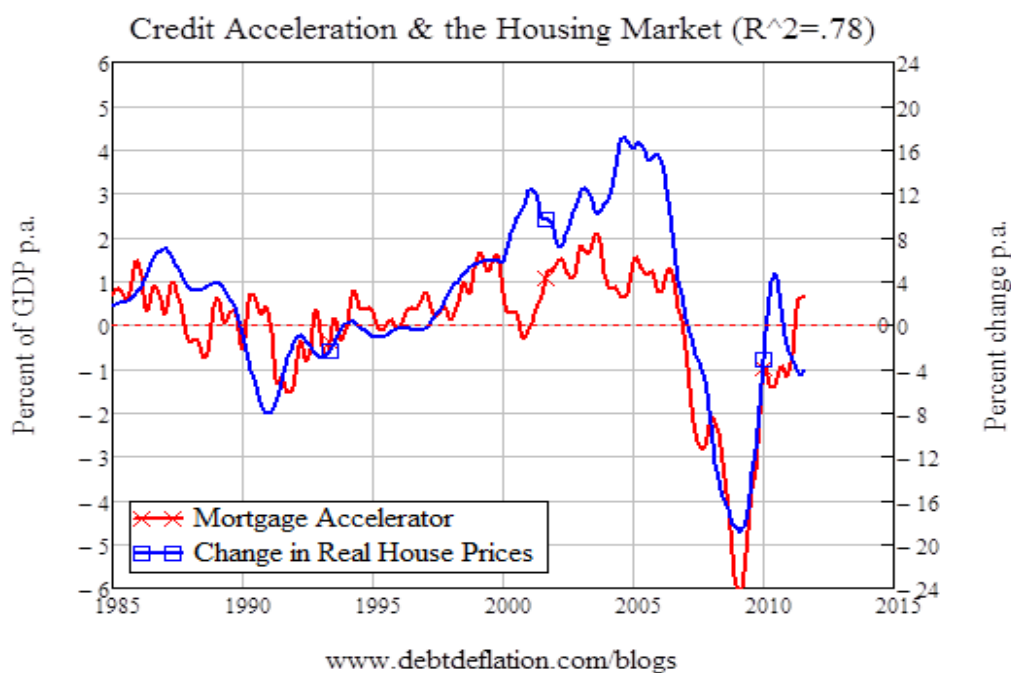
Debt acceleration is the main factor in determining asset prices. Asset bubbles therefore have to burst, because debt acceleration cannot remain positive forever.

**Figure 10**



This causal relationship is much more obvious with mortgage debt and change in house prices (see Figure 11).

**Figure 11**



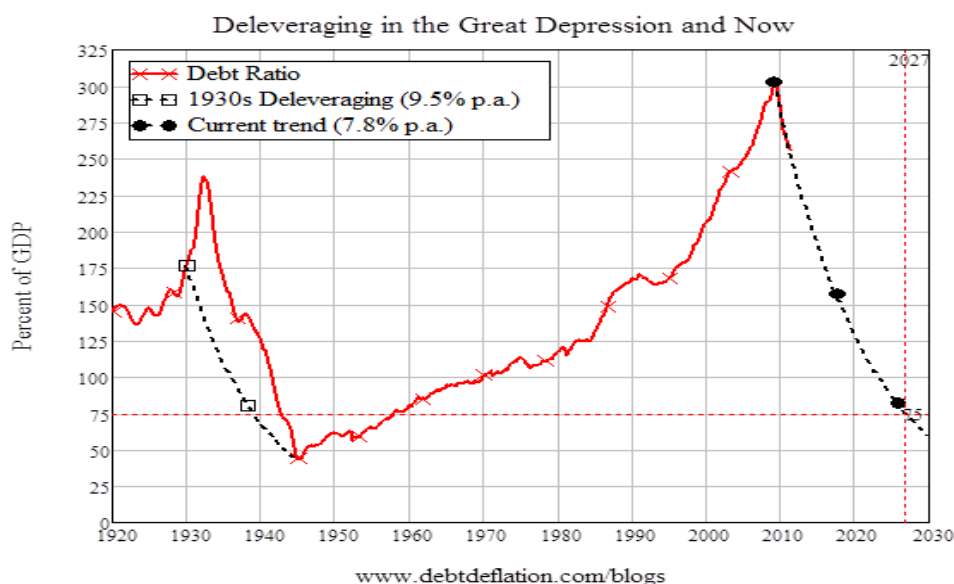
Further development of this indicator is therefore highly warranted—both as an indicator of what trends can be expected in asset prices now, and as a means to identify whether a bubble is developing in future. At present, the Credit Accelerator's definition is quite simple—the change in change in debt over a time period, divided by GDP at the midpoint of that period—and the noisiness of financial data makes it difficult to use short time periods, which would obviously be superior for forecasting. A sophisticated filtering process and forward indicators for credit would make the Credit Accelerator a much more powerful tool.

## A Modern Jubilee

Michael Hudson's simple phrase that "Debts that can't be repaid, won't be repaid" sums up the economic dilemma of our times. This does not involve sanctioning "moral hazard", since the real moral hazard was in the behaviour of the finance sector in creating this debt in the first place. **Most of this debt should never have been created, since all it did was fund disguised Ponzi Schemes that inflated asset values without adding to society's productivity. Here the irresponsibility—and Moral Hazard—clearly lay with the lenders rather than the borrowers.**

**The only real question we face is not whether we should or should not repay this debt, but how are we going to go about not repaying it?**

**The standard means of reducing debt—personal and corporate bankruptcies for some, slow repayment of debt in depressed economic conditions for others—could have us mired in deleveraging for one and a half decades, given its current rate (see Figure 12)**





**That fate would in turn mean one and a half decades where the boost to demand that rising debt *should* provide—when it finances investment rather than speculation—will not be there. The economy will tend to grow more slowly than is needed to absorb new entrants into the workforce, innovation will slow down, and justified political unrest will rise—with potentially unjustified social consequences.**

We don't need to speculate about the economic and social damage such a future history will cause—all we have to do is remember the last time.

We should, therefore, find a means to reduce the private debt burden now, and reduce the length of time we spend in this damaging process of deleveraging. Pre-capitalist societies instituted the practice of the Jubilee to escape from similar traps ([Hudson 2000](#); [Hudson 2004](#)), and debt defaults have been a regular experience in the history of capitalism too ([Reinhart and Rogoff 2008](#)). So a *prima facie* alternative to 15 years of deleveraging would be an old-fashioned debt [Jubilee](#).

But a Jubilee in our modern capitalist system faces two dilemmas. Firstly, in any capitalist system, a debt Jubilee would paralyse the financial sector by destroying bank assets. Secondly, in our era of securitized finance, the ownership of debt permeates society in the form of [asset based securities](#) (ABS) that generate income streams on which a multitude of non-bank recipients depend, from individuals to councils to pension funds.

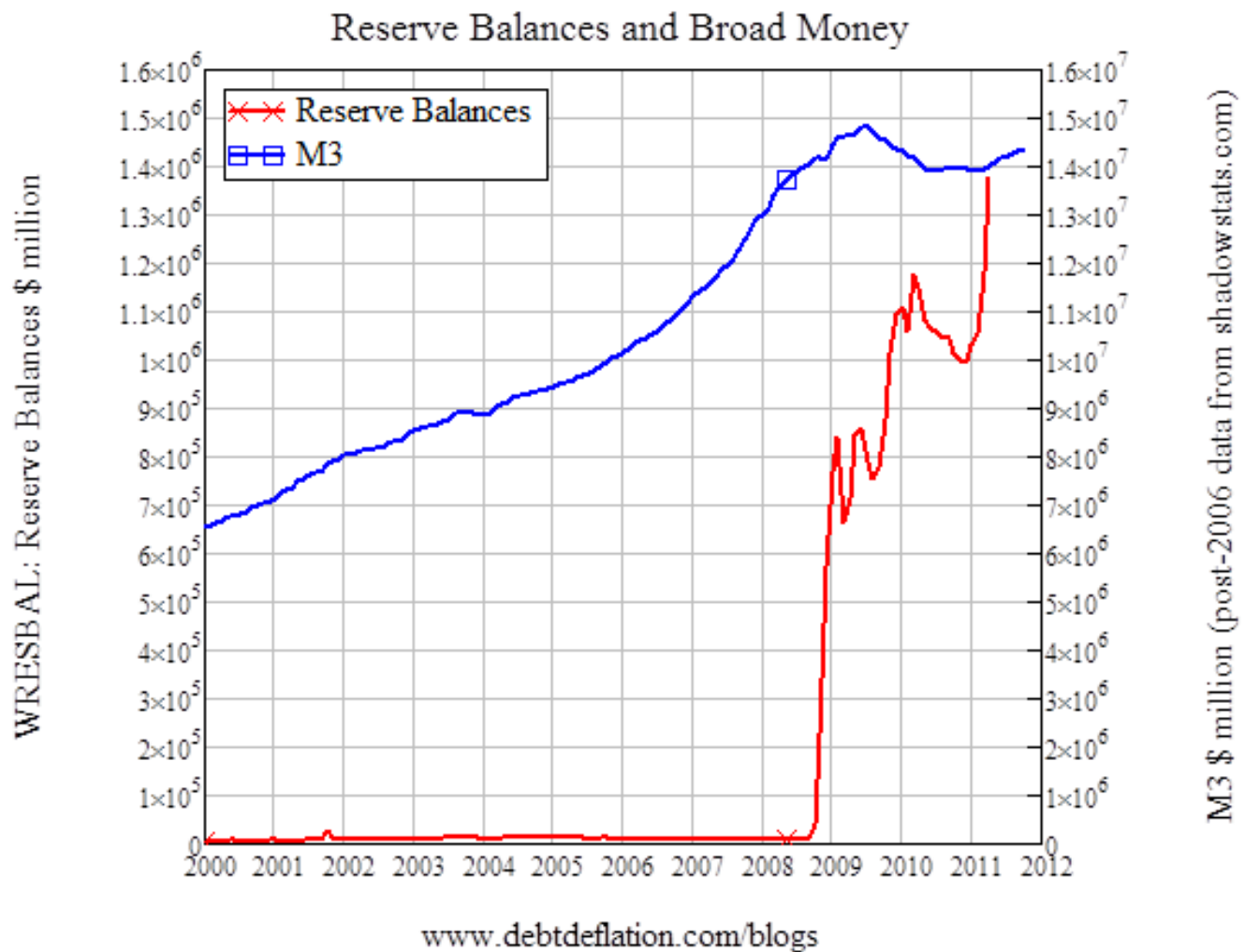
Debt abolition would inevitably also destroy both the assets and the income streams of owners of ABSs, most of whom are innocent bystanders to the delusion and fraud that gave us the Subprime Crisis, and the myriad fiascos that Wall Street has perpetrated in the 2 decades since the 1987 Stock Market Crash.

We therefore need a way to short-circuit the process of debt-deleveraging, while not destroying the assets of both the banking sector and the members of the non-banking public who purchased ABSs. **One feasible means to do this is a "Modern Jubilee", which could also be described as "Quantitative Easing for the public".**

**Quantitative Easing was undertaken in the false belief that this would "kick start" the economy by spurring bank lending.**

And although there are a lot of Americans who understandably think that government money would be better spent going directly to families and businesses instead of banks – "where's our bailout?," they ask – the truth is that a dollar of capital in a bank can actually result in eight or ten dollars of loans to families and businesses, a *multiplier effect* that can ultimately lead to a faster pace of economic growth. ([Obama 2009, p. 3](#); *emphasis added*)

**Instead, its main effect was to dramatically increase the idle reserves of the banking sector while the broad money supply stagnated or fell, (see Figure 13), for the obvious reasons that *there is already too much private sector debt, and neither lenders nor the public want to take on more debt.***

**Figure 13**

**A Modern Jubilee would create fiat money in the same way as with Quantitative Easing, but would direct that money to the bank accounts of the public *with the requirement that the first use of this money would be to reduce debt.* Debtors whose debt exceeded their injection would have their debt reduced but not eliminated, while at the other extreme, recipients with no debt would receive a cash injection into their deposit accounts.**

The broad effects of a Modern Jubilee would be:

1. Debtors would have their debt level reduced;
2. Non-debtors would receive a cash injection;
3. The value of bank assets would remain constant, but the distribution would alter with debt-instruments declining in value and cash assets rising;
4. Bank income would fall, since debt is an income-earning asset for a bank while cash reserves are not;

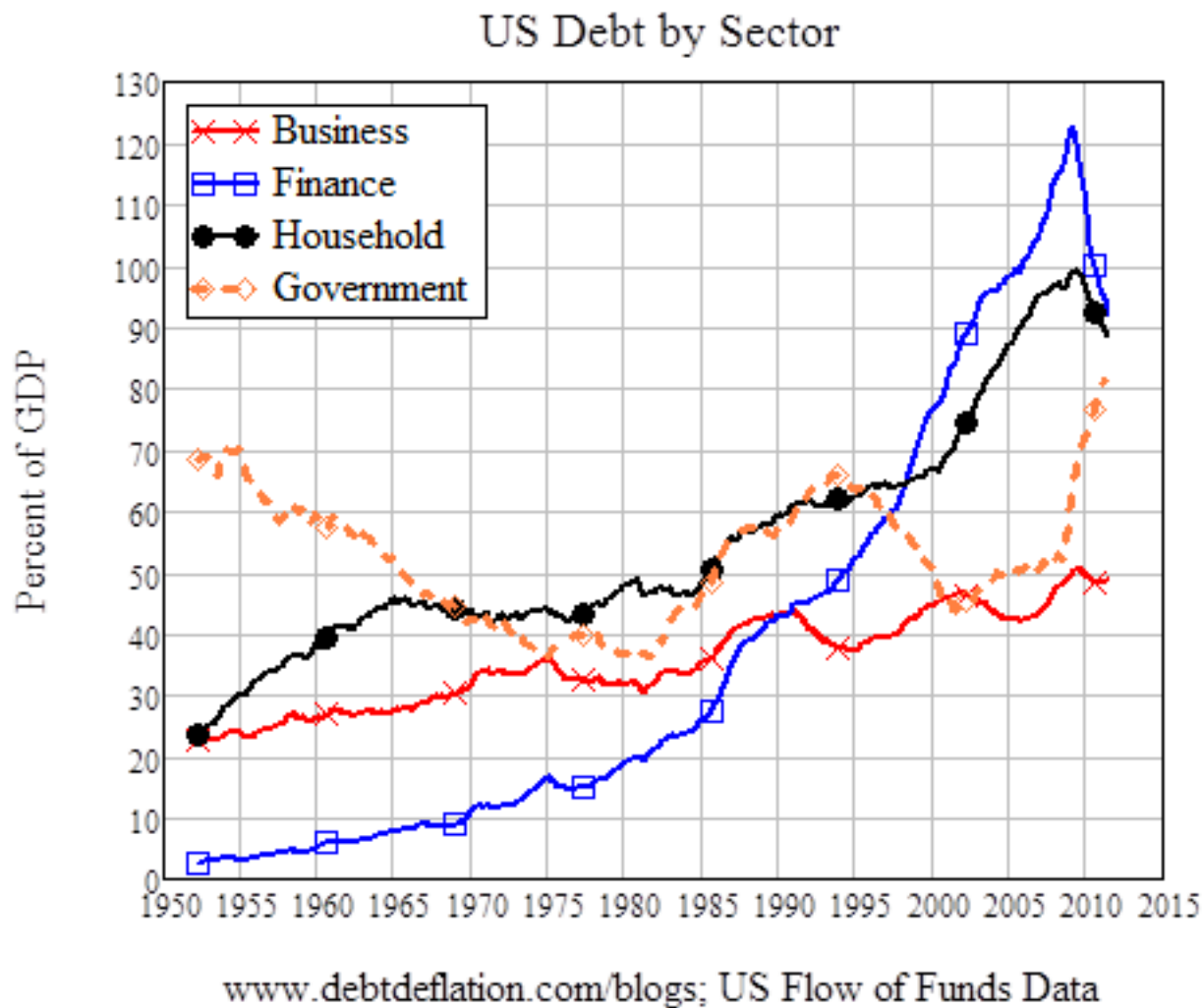
5. The income flows to asset-backed securities would fall, since a substantial proportion of the debt backing such securities would be paid off; and
6. Members of the public (both individuals and corporations) who owned asset-backed-securities would have increased cash holdings out of which they could spend in lieu of the income stream from ABS's on which they were previously dependent.

Clearly there are numerous complex issues to be considered in such a policy: the scale of money creation needed to have a significant positive impact (without excessive negative effects—there will obviously be such effects, but their importance should be judged against the alternative of continued deleveraging); the mechanics of the money creation process itself (which could replicate those of Quantitative Easing, but may also require changes to the legal prohibition of Reserve Banks from buying government bonds directly from the Treasury); the basis on which the funds would be distributed to the public; managing bank liquidity problems (since though banks would not be made insolvent by such a policy, they would suffer significant drops in their income streams); and ensuring that the program did not simply start another asset bubble.

## **Taming the Finance Sector**

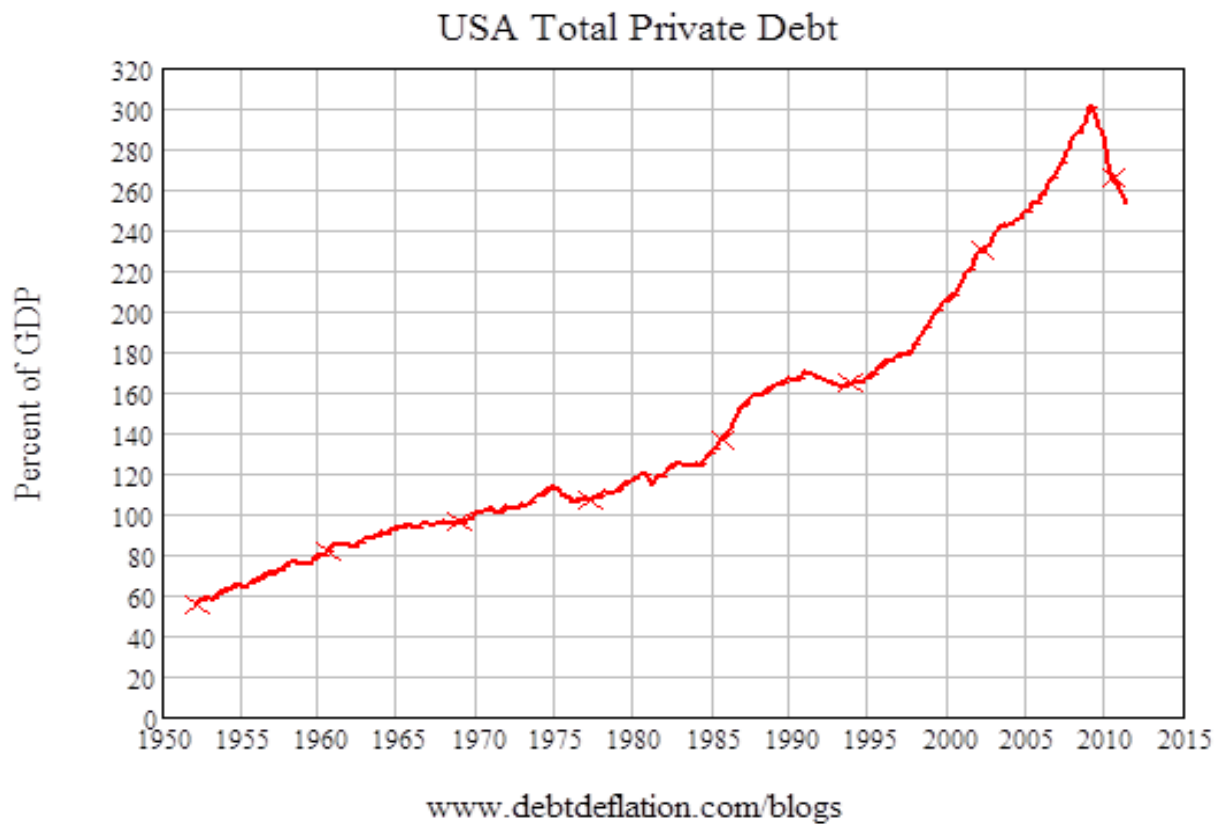
**Finance performs genuine, essential services in a capitalist economy when it limits itself to (a) providing working capital to non-financial corporations; (b) funding investment and entrepreneurial activity, whether directly or indirectly; (c) funding housing purchase for strictly residential purposes, whether to owner-occupiers for purchase or to investors for the provision of rental properties; and (d) providing finance to households for large expenditures such as automobiles, home renovations, etc.**

**It is a destructive force in capitalism when it promotes leveraged speculation on asset or commodity prices, and funds activities (like levered buyouts) that drive debt levels up and rely upon rising asset prices for their success. Such activities are the overwhelming focus of the non-bank financial sector today, and are the primary reason why financial sector debt has risen from trivial levels of below 10 percent of GDP before the 1970s to the peak of over 120 percent in early 2009.**

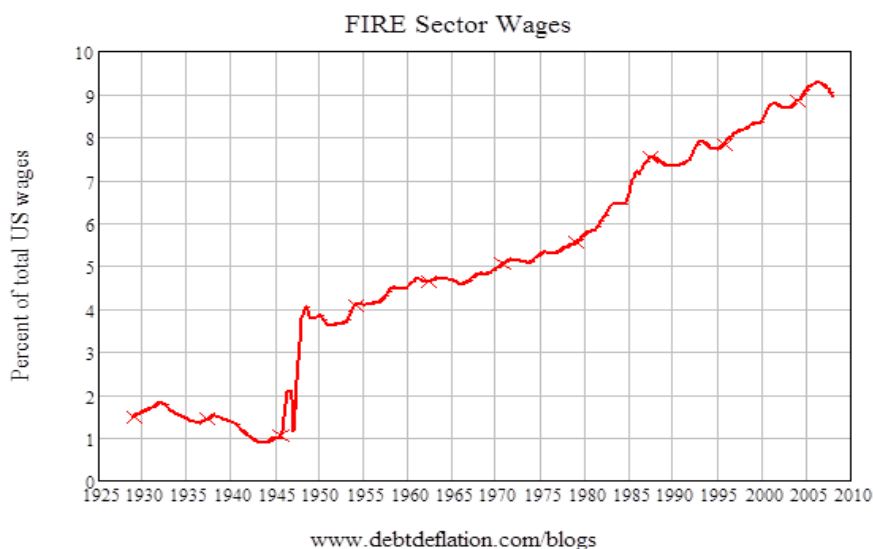
**Figure 14**

Returning capitalism to a financially robust state must involve a dramatic fall in the level of private debt—and the size of the financial sector—as well as policies that return the financial sector to a service role to the real economy.

The size of the financial sector is directly related to the level of private debt, which in America peaked at 303% of GDP in early 2009 (see Figure 15). Using history as our guide, America will only return to being a financially robust society when this ratio falls back to below 100% of GDP. Most other OECD countries likewise need to drastically reduce their levels of private debt.

**Figure 15**

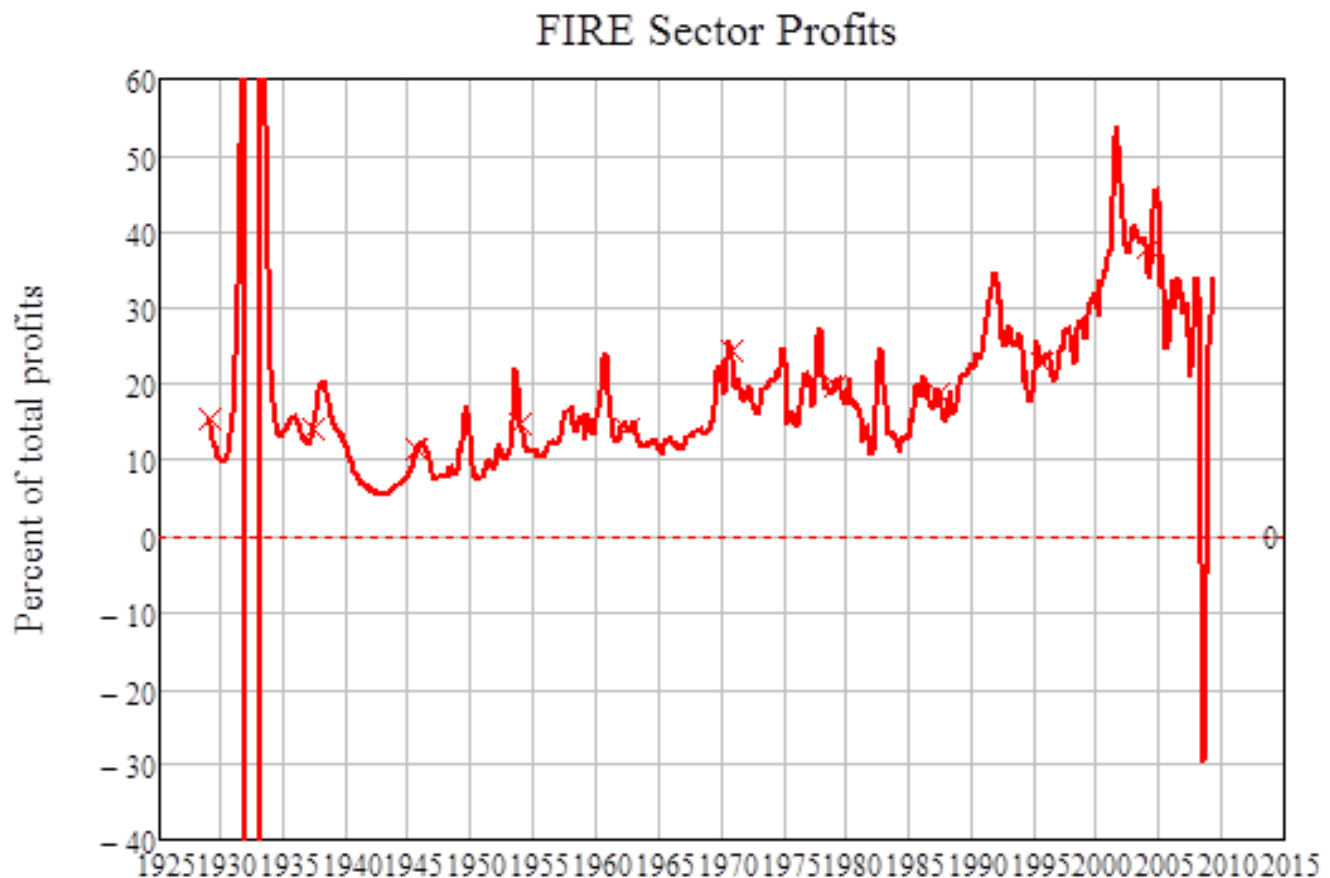
The percentage of total wages and profits earned by the FIRE sector (as defined in the NIPA tables) gives another guide. America's period of robust economic growth coincided with FIRE sector profits being between 10 and 20 percent of total profits, and wages in the FIRE sector being below 5 percent of total wages. Finance sector profits peaked at over 50% of total profits in 2001, while wages in the FIRE sector peaked at over 9 percent of total wages.

**Figure 16**



Since finance sector profits are primarily a function of the level of private debt, this implies that the level of debt needs to shrink by a factor of 3-4, while employment in the finance sector needs to roughly halve. At the maximum, the finance sector should be no more than 50% of its current size.

**Figure 17**



[www.debtdeflation.com/blogs](http://www.debtdeflation.com/blogs); NIPA Table 6

Such a large contraction in the size of the sector means that the majority of those who currently work there will need to find gainful employment elsewhere. Individuals who can actually evaluate investment proposals—generally speaking, engineers rather than financial engineers—will need to be hired in their place. Many of the standard practices of that sector today will have to be eliminated or drastically curtailed, while many practices that have been largely abandoned will have to be reinstated.

## Taming the Credit Accelerator

Capitalism's crises have always been a product of the financial sector funding speculation on asset prices rather than funding business and innovation. This allows financial sector

profits to grow far larger than is warranted, on the foundation of a far larger level of private debt than society can support. This lending causes a positive feedback loop between accelerating debt and rising asset prices, leading to both a debt and asset price bubble. The asset price bubble must burst—because it relies upon accelerating debt for its maintenance—but once it bursts, society is still left with the debt.

The underlying cause is the relationship between debt and asset prices in a credit-based economy.

[Mathematical explanation snipped.]

Some acceleration of debt is vital for a growing economy. As good empirical work by Fama and French has confirmed ([Fama and French 1999](#); [Fama and French 2002](#)), change in debt is the main source of funds for investment, and as Schumpeter explains ([Schumpeter 1934, pp. 95-107](#)), the interplay between investment and the endogenous creation of spending power by the banking system ensures that this will be a cyclical process. Debt acceleration during a boom and deceleration during a slump are thus essential aspects of capitalism.

However this relation also implies that the acceleration of debt is a factor in the rate of change of asset prices (along with the change in income) and that when asset prices grow faster than incomes and consumer prices, the motive force behind it will be the acceleration of debt. At the same time, the growth in asset prices is the major incentive to accelerating debt: this is the positive feedback loop on which all asset bubbles are based, and it is why they must ultimately burst (see Figure 10 and Figure 11). This is the foundation of Ponzi Finance ([Minsky 1982, p. 29](#)), and it is this aspect of finance that has to be tamed to reduce the destructive impact of finance on capitalism.

I do not believe that regulation alone will achieve this aim, for two reasons.

- Minsky's proposition that "stability is destabilizing" applies to regulators as well as to markets. If regulations actually succeed in enforcing responsible finance, the relative tranquillity that results from that will lead to the belief that such tranquillity is the norm, and the regulations will ultimately be abolished. After all, this is what happened after the last Great Depression.
- Banks profit by creating debt, and they are always going to want to create more debt. This is simply the nature of banking. Regulations are always going to be attempting to restrain this tendency, and in this struggle between an "immovably object" and an "irresistible force", I have no doubt that the force will ultimately win.

If we rely on regulation alone to tame the financial sector, then it will be tamed while the memory of the crisis it caused persists, only to be overthrown by a resurgent financial sector some decades hence (sceptics on this point should take a close look at Figure 2, showing the debt to GDP graph for Australia from 1860 till today).

There are thus only two options to limit capitalism's tendencies to financial crises: to change the nature of either lenders or borrowers in a fundamental way. There are propos-

als for the former, which I'll discuss later, but (for reasons I'll discuss now) my preference is to address the latter by reducing the appeal of leveraged speculation on asset prices.

There are, I believe, no prospects for fundamentally altering the behaviour of the financial sector because, as already noted, the key determinant of profits in the finance sector is the level of debt it can generate. However it is organised and whatever limits are put upon its behaviour, it will want to create more debt.

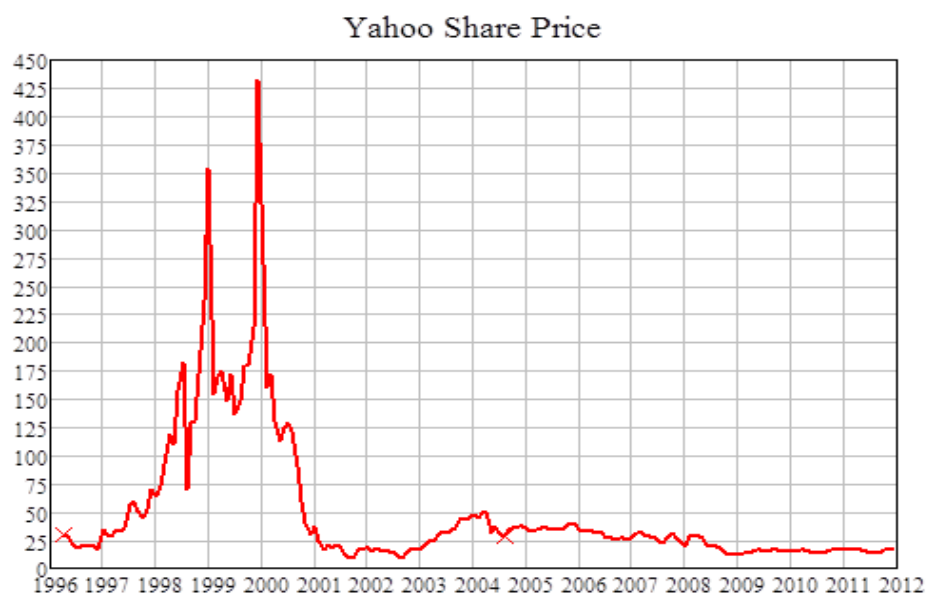
There are prospects for altering the behaviour of the non-financial sector towards debt because, fundamentally, debt is a bad thing for the borrower: the spending power of debt now is an enticement, but with it comes the drawback of servicing debt in the future. For that reason, when either investment or consumption is the reason for taking on debt, borrowers will be restrained in how much they will accept. Only when they succumb to the enticement of leveraged speculation will borrowers take on a level of debt that can become systemically dangerous.

### **[Technical mathematical details snipped.]**

The link between accelerating debt levels and rising asset prices is therefore the basis of capitalism's tendency to experience financial crises. That link has to be broken if financial crises are to be made less likely—if not avoided entirely. This requires a redefinition of financial assets in such a way that the temptations of Ponzi Finance can be eliminated.

### **Jubilee Shares**

The key factor that allows Ponzi Schemes to work in asset markets is the "Greater Fool" promise that a share bought today for \$1 can be sold tomorrow for \$10. No interest rate, no regulation, can hold against the charge to insanity that such a feasible promise ferments, and on such a foundation the now almost forgotten folly of the DotCom Bubble was built. Both the promise and the folly are well illustrated in Yahoo's share price (see Figure 22).



**Figure 22**

[www.debtdeflation.com/blogs](http://www.debtdeflation.com/blogs)

I propose the redefinition of shares in such a way that the enticement of limitless price appreciation can be removed, and the primary market can take precedence over the secondary market. A share bought in an IPO or rights offer would last forever (for as long as the company exists) as now with all the rights it currently confers. It could be sold once onto the secondary market with all the same privileges. But on its next sale it would have a life span of 50 years, at which point it would terminate.

The objective of this proposal is to eliminate the appeal of using debt to buy existing shares, while still making it attractive to fund innovative firms or startups via the primary market, and still making purchase of the share of an established company on the secondary market attractive to those seeking an annuity income.

I can envisage ways in which this basic proposal might be refined, while still maintaining the primary objective of making leveraged speculation on the price of existing share unattractive. The termination date could be made a function of how long a share was held; the number of sales on the secondary market before the Jubilee effect applied could be more than one. But the basic idea has to be to make borrowing money to gamble on the prices of existing shares a very unattractive proposition.

### **"The Pill"**

At present, if two individuals with the same savings and income are competing for a property, then the one who can secure a larger loan wins. This reality gives borrowers an incentive to want to have the loan to valuation ratio increased, which underpins the finance sector's ability to expand debt for property purchases.

[Some explanation and charts omitted]

Limits on bank lending for mortgage finance are obviously necessary, but while those controls focus on the income of the borrower, both the lender and the borrower have an incentive to relax those limits over time. This relaxation is in turn the factor that enables a house price bubble to form while driving up the level of mortgage debt per head.

### **[Figure 26 omitted]**

I instead propose basing the maximum debt that can be used to purchase a property on the income (actual or imputed) of the property itself. Lenders would only be able to lend up to a fixed multiple of the income-earning capacity of the property being purchased—regardless of the income of the borrower. A useful multiple would be 10, so that if a property rented for \$30,000 p.a., the maximum amount of money that could be borrowed to purchase it would be \$300,000.

Under this regime, if two parties were vying for the same property, the one that raised more money via savings would win. There would therefore be a negative feedback rela-

tionship between leverage and house prices: an general increase in house prices would mean a general fall in leverage.

I call this proposal *The Pill*, for “Property Income Limited Leverage”. This proposal is a lot simpler than Jubilee Shares, and I think less in need of tinkering before it could be finalized. Its real problem is in the implementation phase, since if it were introduced in a country where the property bubble had not fully burst, it could cause a sharp fall in prices. It would therefore need to be phased in slowly over time—except in a country like Japan where the house price bubble is well and truly over (even though house prices are still falling).

There are many other proposals for reforming finance, most of which focus on changing the nature of the monetary system itself. The best of these focus on instituting a system that removes the capacity of the banking system to create money via “Full Reserve Banking”.

## Full Reserve Banking

The former could be done by removing the capacity of the private banking system to create money. This is the substance of the [American Monetary Institute](#)’s proposals, which are now embodied in the [National Emergency Employment Defense Act of 2011 \(HR 2990\)](#), a Bill which was submitted to Congress by [Congressman Dennis Kucinich](#) on September 21<sup>st</sup> 2011. This bill would remove the capacity of the banking sector to create money, along the lines the 100% reserve proposals first championed by Irving Fisher during the Great Depression ([Fisher 1936](#)), and vest the capacity for money creation in the government alone.

A similar system is proposed by the UK’s [New Economic Foundation](#) with its [Positive Money](#) proposal.

Technically, both these proposals would work. I won’t go into great detail on them here, other than to note my reservation about them, which is that I don’t see the banking system’s capacity to create money as the *causa causans* of crises, so much as the uses to which that money is put. As Schumpeter explains so well, the endogenous creation of money by the banking sector gives entrepreneurs spending power that exceeds that coming out of “the circular flow” alone. ***When the money created is put to Schumpeterian uses, it is an integral part of the inherent dynamic of capitalism. The problem comes when that money is created instead for Ponzi Finance reasons, and inflates asset prices rather than enabling the creation of new assets.***



My caution with respect to full reserve banking systems is that this endogenous expansion of spending power would become the responsibility of the State alone. Here, though I am a proponent of government counter-cyclical spending, I am sceptical about the capacity of government agencies to get the creation of money right at all times. This is not to say that the private sector has done a better job—far from it! But the private banking system will always be there—even if changed in nature—ready to exploit any slipups in government behaviour that can be used to justify a return to the system we are currently in. Slipups will surely occur, especially if the new system still enables speculation on asset prices to occur.

Since in the real world, people forget and die, the memory of the chaos we are living through now won't be part of the mindset when those slipups occur, especially if the end of the Age of Deleveraging ushers in a period of economic tranquillity like the 1950s. We could well have 100% money reforms "reformed" out of existence once more.

Schumpeterian banking also inherently includes the capacity to make mistakes: to fund a venture that doesn't succeed, and yet to be willing to take that risk again in the hope of funding one that succeeds spectacularly. I am wary of the capacity of that mindset to co-exist with the bureaucratic one that dominates government.

So though I am not opposed to the 100% Reserve Banking proposal, I am not enthusiastic either. I believe they need curbs on the capacity to finance asset price speculation like Jubilee Shares and The Pill, and if they have them, these alone might achieve most of what monetary reformers hope to achieve with far more extensive change to the financial system.

## Other issues

As [Douglas Adams once brilliantly remarked](#), most of our solutions to human problems involve movements of small green pieces of paper, and my solutions clearly fall into that camp:

This planet has—or rather had—a problem, which was this: most of the people living on it were unhappy for pretty much of the time. Many solutions were suggested for this problem, but most of these were largely concerned with the movements of small green pieces of paper, which is odd because on the whole it wasn't the small green pieces of paper that were unhappy. ([Adams 1988](#))

I have said nothing here about [Global Warming](#) and [Peak Oil](#). Clearly these factors will shape the post-Great Contraction world far more powerfully than would my reforms. The reasons for not mentioning them include specialisation—I am an economist after all, not a specialist on the climate or energy—and the fact that these issues will ultimately make the

financial crisis look trivial by comparison. Discussing them while discussing the financial crisis would have swamped the latter topic almost entirely.

Ending the dominance of the FIRE sector will also expose the extent to which America and the UK in particular have been de-industrialised in the last 30 years. Though the relocation of production from the Western OECD to developing nations could have occurred independently of the growth of Ponzi Finance, Ponzi Finance enabled this trend to go on for much longer than it could have otherwise done. It is highly likely that reforms to end Ponzi Finance will be blamed for causing the crisis in unemployment that has in fact existed for decades, and would merely be exposed by suddenly reducing the size of the FIRE sector.



**Seattle March on November 16, 2011**

# TECHNOLOGY

## Peer to Peer User Owned Communications Infrastructure

*The Free Network Foundation and Building an  
Inter-occupy Network*

*Published separately as March April 2012 Part 2*

*Title and contents page inserted here as a place holder*

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**Note to readers -- this text is found in part 2  
sent as a separate PDF**

## netBlazr and Free Network are quite different in approach

**Editor:** The following was written by Brough Turner co- founder and CEO of netBlazr on January 16, 2012.

I see free network as a political effort focused on secure communication for people who don't want to be spied upon. They need to enable those who want private communication to build their own private network(s). Then to interconnect private networks, they sometimes connect to and tunnel through the public Internet. I don't know if they have a financial model that will allow their efforts to flourish in a place like the US where VPNs and other security measures are not illegal. I do see what they are doing as valuable in places with more oppressive regimes, but then they'll have to think about physical security and the ease of locating recognizable SSIDs and so forth...

In any event, netBlazr is very different. [netBlazrfocuses on access to the Internet](#) , leaving privacy, encryption and such to others. We are trying to do an end run around broken US communications policy, i.e. around the phone company, the cable company, the FCC and Congress. We do this by incenting companies and people to join a broadband cooperative that is managed by netBlazr.

So we're quite different, in politics, business model and in who we focus on as members of our respective communities. That said, I try to track all the different community wireless efforts, looking for ideas, technology, & whatever... So I'd love to talk with Isaac at some point. I did attend Sascha Meinrath's International Summit for Community Wireless Networks in Vienna in 2010 and I've maintained a tenuous link to various European networking projects.

As for netBlazr, we're making a bunch of progress, although still on a small scale and with plenty of development yet to finish. We're beginning with a focus on medium and smaller businesses, as they are even more screwed than consumers by the access market in the US today. That means they are surprisingly open to investing a few hundred dollars to join the cooperative network and deal with various IT issues that we haven't as yet automated away.

We've defined a new product for a new category, Internet augmentation, and demonstrated that businesses are very interested in purchasing this service. The netBlazr service is designed to augment your existing Internet access service. It turns out most businesses realize they will never get truly reliable connectivity if they have only one provider (especially a monopolist with bogus SLAs). So the idea of getting a second or co-primary service for free or super low cost goes over very well. It also means you don't care that there is no SLA, that the service is relayed through your neighbor's offices, etc.

There are three costs in every traditional ISP: the cost of building the network (our customers pay for the network); the cost of customer support (we have a web care model and a list of 3rd party IT outsourcing firms that will provide support for \$); and the cost of customer acquisition (we get PR from being a "freemium" service and word of mouth from people in our communities). With all the major costs



dramatically reduced we can manage the network on behalf of our community, providing both free and super low cost premium services, hopefully at a profit to netBlazr. (Our first head end started covering the direct operating costs after the 12th customer signed up!).

## Let's build a decentralized mesh Wi-Fi.

Would you be interested in joining a censorship-resistant wireless mesh network? Add yourself to this map so that others can find their neighbours and connect with them.

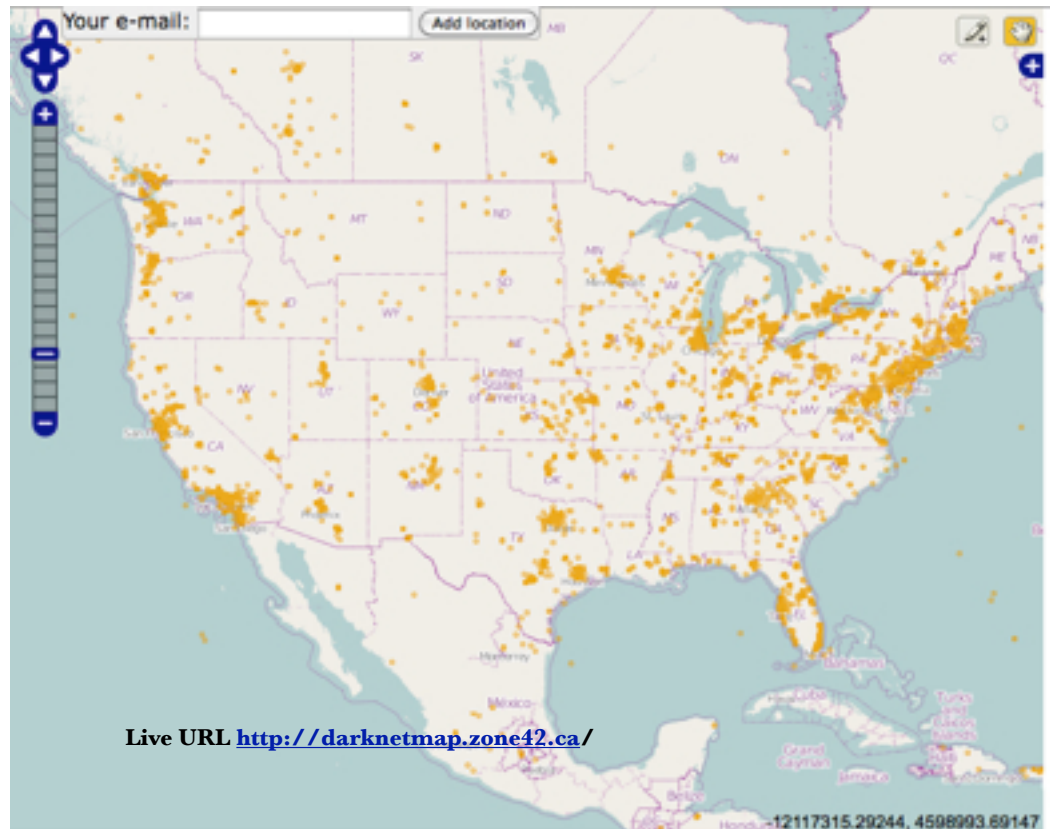
Recent events related to net neutrality and censorship have us realizing that the internet is not as resistant to political attack as we had imagined. With the flick of a finger governments can seize domain names without oversight, with concealed effort Internet Service Providers are undermining the neutrality of the Internet.

We are building a mesh network that will do away with censorship, ISP conflicts-of-interest, and 'last mile' duopolies. Affordable technology to do so already exists, but the main hurdle is finding nearby individuals interested in participating.

This map solves this issue. Place a marker on the map to indicate your approximate location (for privacy reasons.) The marker will be attached to an e-mail address so that others nearby will be able to communicate with you (through an anonymous form — your address will remain secret.)

The goal is not to build a wide-area mesh network overnight, but rather get nearby geeks to experiment with mesh technologies, in the hopes that more will join later.

Problems? Contact darknetmap at zone42 dot ca



# Technology

## Open Source Ecology

**Editor's Introduction:** Given the fractured and perilous state of society, the ideas of the open knowledge commons as expressed in the blog and wiki of the Peer-to-peer Foundation are increasingly important. One should understand that around the edges of the old society, in an underground, root-like fashion, are spreading new ideas of ways to build and organize sustainable communities and with them a sustainable civilization.

For several years John Robb has been writing about the concept of resilient communities in which the creation of Open Source Ecology's 50 machine Civilization Starter Kit is likely to become a critical component. Readers should be aware of Rob's [resilient community wiki called miiu.org](#) [resilient community wiki called miiu.org](#) and the fact that in January of 2012 he opened a new website called [resilient communities](#).

I've been aware of open source ecology and its sister organizations for a couple of years but it was only in January 2012 that I saw Wouter Tebbens's new blog [microfactoria.wordpress.com](#) that will be dedicated to open source hardware and manufacturing. I essentially reprint here his lengthy blog item which is a summary and review of what open source ecology has done so far and is -- one hopes -- poised to pick up speed now that its founder in February of last year made an extremely highly rated Ted talk with over 900,000 views -- one that spread word of his work far more widely and has gained him a lot more financial support.

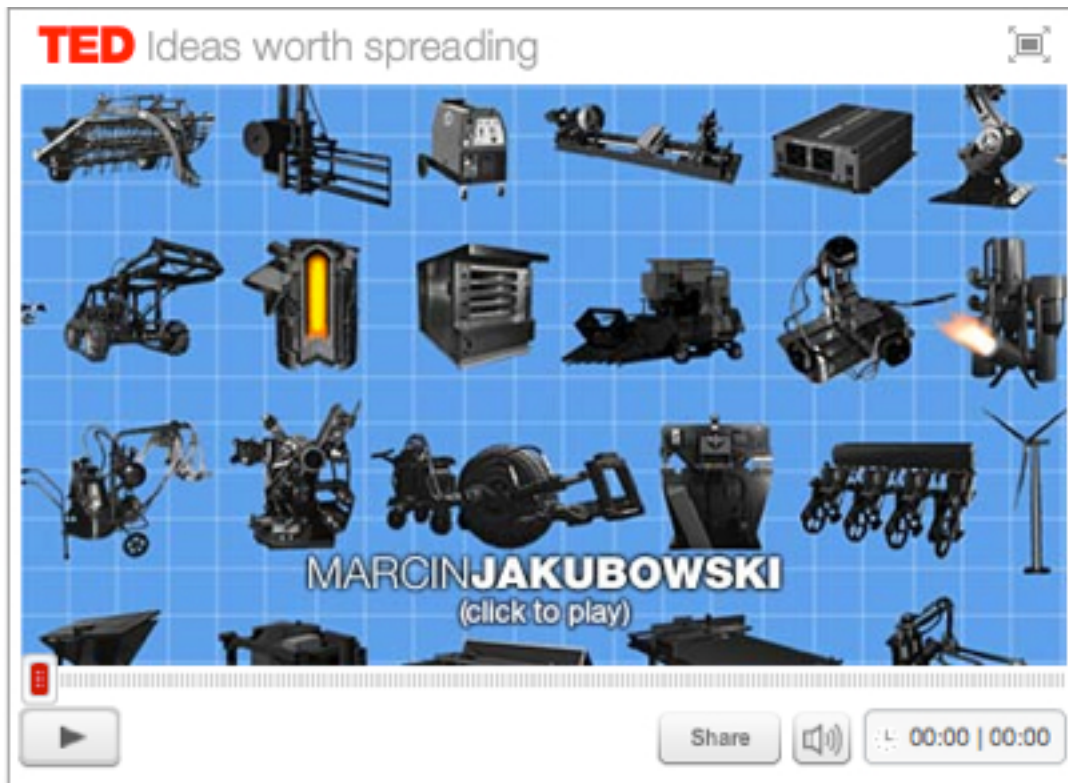
In my opinion our globalized civilization is so tightly coupled and complexly structured that regardless what happens to our economies, the existence of something like open source ecology and the 50 tools of factory farm are extremely important.

The author of this extensive summary is [Wouter Tebbens](#), a self-described Dutch activist, researcher and social entrepreneur on [Free Knowledge](#). According to his [Wikipedia entry](#): Tebbens received a Master of Science in Mechanical Engineering at the [University of Twente](#), Netherlands. His final research project was in the group of Production and Operations Management led by prof. dr. W.H.M. Zijm.[2] In 2002 he founded the company [xlocal.com](#), offering services based on [free software](#) to SME companies. Between 2004 and 2007 he presided the working group on [Free/Libre/Open Source Software](#) at [Internet Society](#) Netherlands. Between 2006 and 2008 he was coordinator of the European Commission's FP6-funded SELF Project (Science, Education & Learning in Freedom)[3] to design a platform for the collaborative construction of educational materials. In 2007 he co-founds the non-profit foundation [Free Knowledge Institute](#) together with [Hinde ten Berge](#) and [David Jacovkis](#) to consolidate their activities and mission for a free knowledge society.[4]

Posted by [wtebbens](#) · 17/01/2012 · [2 Comments](#)

**Filed Under** [knowledge commons](#)

*Open Source Ecology is an ambitious project to develop self-sufficient human-scale high-tech communities with the basic machinery and tools for production of all, or most of, the goods necessary to live a*



Ted Talk URL [http://www.ted.com/talks/lang/en/marcin\\_jakubowski.html](http://www.ted.com/talks/lang/en/marcin_jakubowski.html)

*comfortable life in a small community. Supported by modern technology and working in a globally networked environment, its members shouldn't have to work too many hours per week. OSE is a case of radically applying the concepts of free knowledge and peer production to the production of most human needs.*

*In this brief case study, we will explore the foundations and guiding principles of OSE, it's main project – the Global Village Construction Set (GVCS)-, the team, the business models, their plans and current status,*

*challenges and end with lessons learnt and some conclusions. The information comes mostly from the OSE [wiki](#) and [blog](#), several mailing lists and some direct email exchange with several core team members.*

## Introduction

“Imagine if *you* could build cars, industrial robots, engines, and other things in your own back yard. The only problem is, these require billions of dollars of infrastructure in the current industrial system. Not for long – if we succeed with the **Open Source Micro-Factory**.”

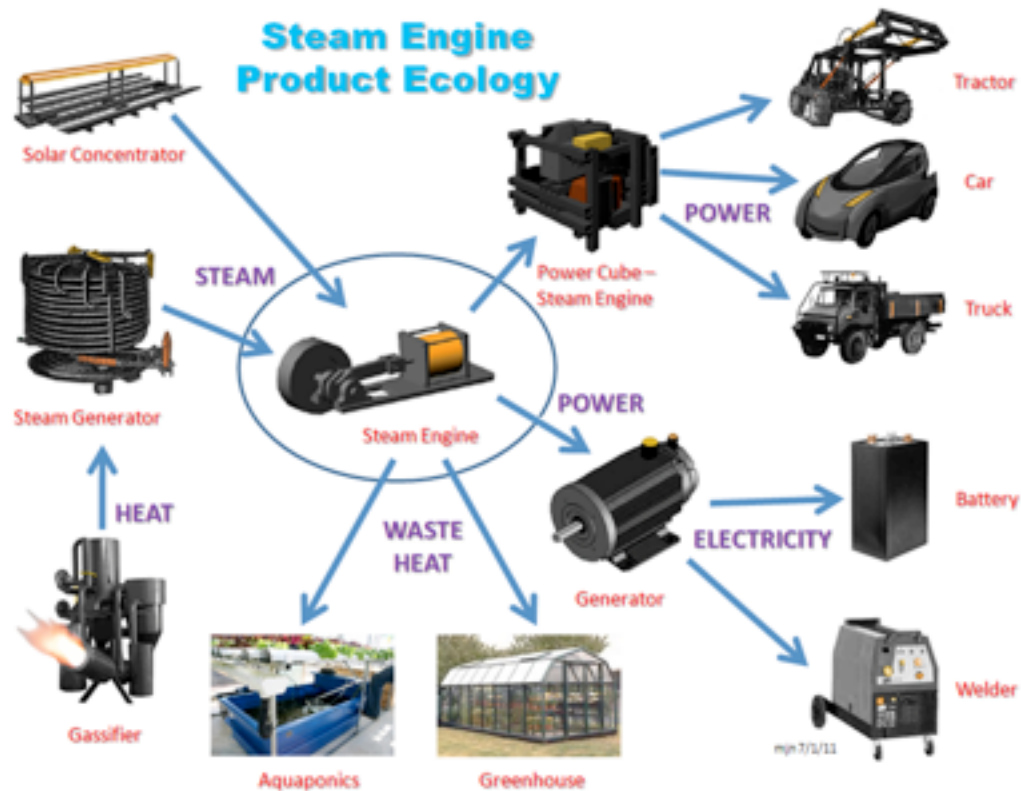
In the founder's words, OSE is a BHAG, a Big-Hairy-Audacious-Goal. And that's what it is, extremely audacious. It is an attempt to show a radical application of the concepts of “free knowledge”, “commons” and “peer production” in the area of small scale industrial production to build sustainable local economies in collaboration with a global community.

Most machines for that goal have been designed (with their designs and bill-of-materials published) and several already built as prototypes, while at the end of 2011 a crowdfunding campaign at Kickstarter and a few private grants have brought in the needed funds to take into production several other machine prototypes.

At a TED Talk in February 2011, founder/coordinator Marcin Jakubowski explains the main ideas, plans and results by then:

## Foundations

At the heart of the project lies a [search for freedom](#) and self-sufficiency: “Are you tired of selling your time only to make money for somebody else, leaving only rare moments and weekends to do what you love (if you have any energy left at that point)? What if you could eliminate the bureaucracy in your life? What if you could end your personal financial contribution to war and keep your money out of the coffers of corporate leaders? We are developing the tools, the networks and community to make technologically modern self-sufficient living possible for everyone. Is it time to begin producing only enough to provide yourself a quality life? Are you ready to divorce yourself from systems that require coercion, injustice, and ecological ruin, while fostering a connection to the land and developing your own true talents? This radical move is increasingly within your reach.”



Their [guiding philosophies](#) include a commitment to free software, proposes a cooperative enterprise form that is [distributive](#) and designed to be replicable, encouraging autonomy, open development, resilience, local community, and keeps a strict gatekeeping policy for “dedicated project visits” through a serious [social contract](#).

To contribute to a post-scarcity economy, OSE works for replicability, to help other people and groups copy the initiative or parts of it. This obviously requires sharing the specifications and design files, but also comes back in various more high level ideas of industrial production. Flexible fabrication is one such idea, where manufacturing can be quickly adjusted to changing needs: this can be done so by using less specialised machinery with high skilled operators. This fits with the idea of “Small is Beautiful” as opposed to large scale, capital intensive mass production. They combine this idea with a collaboratively-developed, global repository of shared product designs. They see this as “... particularly useful [way] towards relocalization of productive economies and towards distributive economics.”

## OSE Mission

“Open Source Ecology (OSE) is a movement dedicated to the collaborative development of tools that enable open access to the best practices of economic production – to promote harmony between humans and their natural life support systems, and to remove material scarcity from determining the course of human relations, globally and locally. OSE aims to create harmonious coexistence between natural and



human ecosystems (if we assume these are separate), towards land stewardship, resilience, and improvement of the human condition. OSE is pursuing the creation of an open society, where everybody's needs are met, and where everybody has access to information, material productivity, and just governance systems – such that human creativity is unleashed, for all peoples. “

## Ecology and design for durability and reuse

Both from an ecological and economic perspective, there are many interesting elements in the OSE philosophy. First they intent to design from a systems perspective, not just for isolated aspects. This includes Design-for-Disassembly; Design-for-Scalability. Second, products are designed for lifetime duration, instead

of current design for obsolescence. That reduces depreciation, and thus the work needed to sustain oneself. Third, products are designed based on a modular approach, which simplifies the design and manufacturing while also reducing the number of different versions for a specific function.

## Brief history and first successes

The predecessor project Open Farm Tech, which started in 2003, actively developed various forms of permaculture for ecological food production. They were able to construct the first version of the Compressed Earth Brick Press by 2007 to produce their own bricks for constructing the initial Factor e Farm. When the landlord got wind of this, he cancelled the lease of the land and they were forced to relocate. In 2008 the [Factor e Farm](http://www.factor-e-farm.com/) was relaunched on a piece of land in rural Missouri.

The movement nevertheless continued building under the name Open Source Ecology and became known to the larger public in early 2011, when founder Marcin was invited to present a TED Talk. Soon after, Make Magazine and other media started to publish about OSE.

In order to generate funds to bring these ideas into reality, a strategy to collect donations has been started. People are asked to make monthly donations of 10 US\$ and become a so-called True Fan. The



URL for the GVCS Video <http://www.youtube.com/watch?v=CD1EWGQDUTQ>





idea is inspired in [Kevin Kelly](#)'s reflections on the Long Tail, where he argues that any artist, author or developer needs to have 1000 True Fans to make a living. By end of 2011 the OSE has reached a level of 450 True Fans who make their monthly contribution.

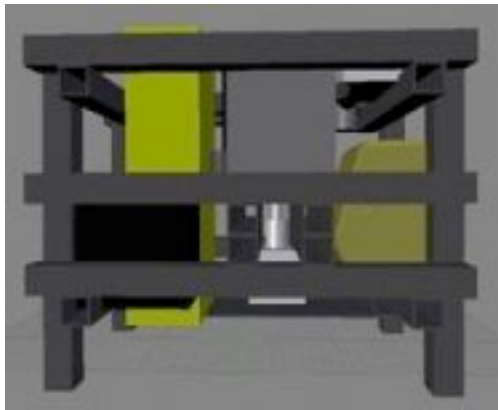
Currently prototypes have been built for these four machines: the LifeTrac tractor, the automated Compressed Earth Bricks Press, Power Cube and Soil Pulverizer. Furthermore the full blueprints for these four and documentation of the CNC [torch table](#) have been

MACHINES	OPEN SOURCE ECOLOGY (Materials Cost)	INDUSTRY STANDARD (New Purchase)
Tractor with loader, up to 54 hp, hydraulic drive	\$6k	\$40k +
Compressed Earth Brick Press, up to 16 bricks per minute, fully automatic, 2"-6"x6"x12" bricks, 700 psi	\$4k	\$40k +
Soil Pulverizer, 5 ton per hour capacity	\$800	\$20k +
2 Hydraulic Power Units, self-contained, 27 hp, 14 gpm @3000psi	\$4k (\$2k each)	\$15k +
<b>TOTAL</b>	<b>\$15k</b>	<b>\$115k +</b>

made available to the public by Christmas 2011.

The crowdfunding platform Kickstarter was used to start a drive for small contributions aimed at raising US\$40.000. The campaign ended in November 2011 and exceeded the goal, raising US\$63.573 pledged by 1384 people.





# Global Village Construction Set

“The [Global Village Construction Set \(GVCS\)](#) is a modular, DIY, low-cost, high-performance platform that allows for the easy fabrication of the 50 different *industrial machines* that it takes to build a small, sustainable civilisation with modern comforts,” according to the [Open Source Ecology](#) website. This is currently the core project where most attention is focused within OSE.

## Keyfeatures

It's [keyfeatures](#):

- [Free knowledge and open development](#) – all 3D designs, schematics, instructional videos, budgets, and product manuals are published under free licenses on the Wiki and open collaboration with technical contributors is encouraged.

• [Low-Cost](#) – The cost of making or buying GVCS machines are, on average, 8x cheaper than buying from an industrial manufacturer, including an average labour per hour for a GVCS fabricator.

• [Modular](#) – Motors, parts, assemblies, and power units can be interchanged, where units can be grouped together to diversify the functionality that is achievable from a small set of units.

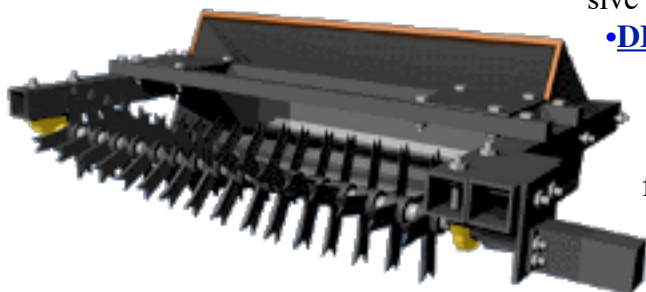
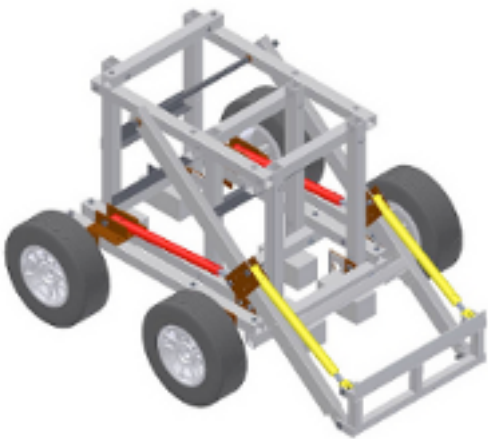
• [User-Serviceable](#) – Design-for-disassembly allows the user to take apart, maintain, and fix tools readily without the need to rely on expensive repairmen.

• [DIY](#) – (do-it-yourself) The user gains control of designing, producing, and modifying the GVCS tool set.

• [Closed Loop Manufacturing](#) – Metal is an essential component of any advanced civilisation, and the platform allows for recycling metal into virgin feedstock for producing further GVCS technologies – thereby allowing for cradle-to-cradle manufacturing cycles.

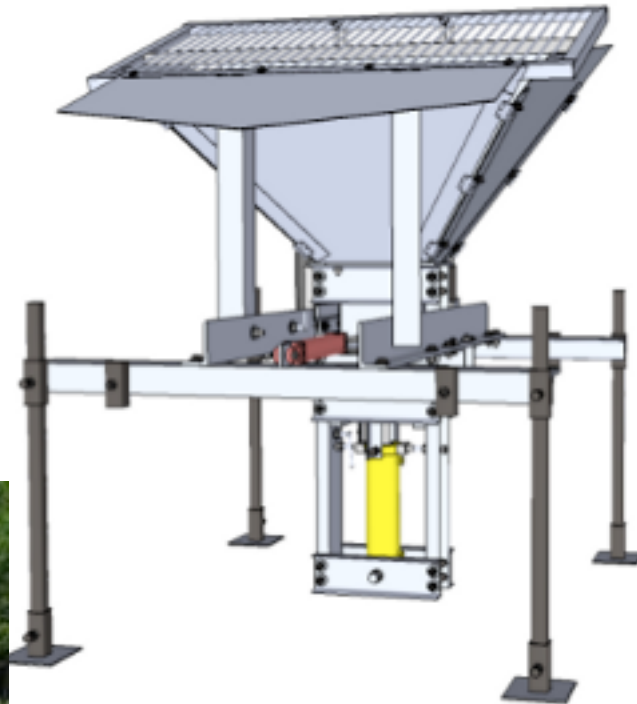


cost



- **High Performance** – Performance standards must match or exceed those of industrial counterparts for the GVCS to be viable.
- **Flexible Fabrication** – It has been demonstrated that the flexible use of general machinery in appropriate-scale production is a viable alternative to centralised mass production.
- **Distributive Economics** – the replication of enterprises that derive from the GVCS platform is encouraged as a route to a truly free enterprise.

## Cost reduction



Indicative cost comparison between GVCS material costs vs. commercial machines

It must be noted that the OSE designed machines only include materials costs, and exclude the labour to fabricate them. Furthermore, these are estimates, as most machines have not yet been prototyped. Nevertheless, these estimates have some consequences for our ideas about

the scale of production. The concept economy of scale indicates that production costs per unit go down if the scale is going up. That's why in many industries mass production is found to be most competitive. From these estimates however we can infer that even small scale production can be economically viable, or even more attractive.

## A prototype of the PowerCube

The PowerCube is a modular, universal, self-contained power unit consisting of an engine coupled to a hydraulic pump, providing power from hydraulic fluid at high pressure. It is designed to function as a modular and interchangeable power supply for GVCS technologies, and is the basic building block for a long list of other machines, such as the tractor, truck, car, CNC torch table, iron worker, saw mill, etc.



The current version of the power cube is based on an [off-the-shelf gasoline engine](#), but the design is intended to be as power source agnostic as possible so that the power production can be readily changed. While now working on gasoline, future versions are expected to work on biofuel and biomass as well. Future variations on the power cube will keep a similar size and outside connections, so as to enable other GVCS machines that use the power cube can easily swap it for another.

## A prototype of the LifeTrac Tractor

The [LifeTrac](#) is a low-cost, multipurpose, open hardware tractor. It is modular and consists of a power cube engine – that in itself is also used for building the steam engine, saw mill or other workshop equipment. It can be used in combination with other tools to convert it into e.g. a baler, seeder, compressed earth brick press, soil pulverizer etc.

Just before Christmas 2011 the OSE team has published a first [instruction video](#) of how this tractor is built. A more complete set of information is promised in the forthcoming “Civilization Starter Kit DVD”. See also the Make [guide](#).

## A prototype of the SoilPulverizer

The [Soil Pulveriser](#) is an extension to the tractor that tills soil with blades via rotary action. It is designed to stir and pulverise the soil, either before planting (to aerate the soil and prepare a smooth, loose seed-bed) or after the crop has begun growing to kill weeds (controlled disturbance of the topsoil close to the crop plants kills the surrounding weeds by uprooting them, burying their leaves to disrupt their photosynthesis, or a combination of both). Soil Pulverisers are designed to disturb the soil in careful patterns, sparing the crop plants but disrupting the weeds.

## A prototype of the Compressed Earth Brick Press

The “Liberator” Compressed Earth Bricks Press, or CEB Press is a machine that makes compressed earth blocks (see OSE Wiki, or the Make [guide](#)). The CEB Press takes earth/dirt/soil and compresses it tightly to make solid blocks useful for building. It is an automated press that can produce 16 bricks per minute, which is several times higher than comparable machines from the industry, though it costs just about 4.000 US\$ in material costs instead of a ten times higher price to buy a commercial product.

The Liberator is designed to be attached to an external power source, such as the LifeTrac tractor or a PowerCube. It needs as little as one person to operate. Using the CEB Press, two people can build a 6 foot high (1.83m) round wall, 20 feet (6.1m) in diameter, 1 foot (30cm) thick, in one 8 hour day.

## The remainder of the 50 GVCS tools

With the first 4 tools prototyped, there are 14 more to go to build the basic package that is needed to build the other 32. The complete [GVCS](#) is comprised of the following tools: [3D Printer](#), [3D Scanner](#), [Aluminum Extractor](#), [Backhoe](#), [Bakery Oven](#), [Baler](#), [Bioplastic Extruder](#), [Bulldozer](#), [Car](#), [CEB Press](#), [Cement Mixer](#), [Chipper Hammermill](#), [CNC Circuit Mill](#), [CNC Torch Table](#), [Dairy Milker](#), [Drill Press](#), [Electric Motor Generator](#), [Gasifier Burner](#), [Hay Cutter](#), [Hay Rake](#), [Hydraulic Motor](#), [Induction Furnace](#), [Industrial Robot](#), [Ironworker](#), [Laser Cutter](#), [Metal](#)

[Roller](#), [Microcombine](#), [Microtractor](#), [Multimachine](#), [Nickel-Iron Battery](#), [Pelletizer](#), [Plasma Cutter](#), [Power Cube](#), [Press Forge](#), [Rod and Wire Mill](#), [Rototiller](#), [Sawmill](#), [Seeder](#), [Solar Concentrator](#), [Spader](#), [Steam Engine](#), [Steam Generator](#), [Tractor](#), [Trencher](#), [Truck](#), [Universal Power Supply](#), [Universal Rotor](#), [Welder](#), [Well-Drilling Rig](#), [Wind Turbine](#).

## Localisation levels: step-by-step substitution

As these ambitious goals cannot be realised all at once, a strategy to bootstrap or kickstart the process is followed. The GVCS tools will be built in three general stages: first, machines are built by using Commercial Off The Shelf (COTS) parts; second, they're built based on parts fabricated by OSE using available materials; third, machines are built from parts fabricated from materials produced in OSE factories. So everytime a new machine is ready, that can be used to produce the parts necessary for other machines and thus substitutes the need to buy parts from commercial manufacturers. The maximum level of localisation will be reached when also the primary resources necessary for the production process are locally extracted from local materials, like scrap metal, bioplastics or clay.

Localisation applies to the creation of natural economies, or those economies based on the substance of their own, natural resources, free of supply chain disruptions. An example of level 3 is the aluminium extractor where local aluminium is made by [smelting](#) aluminium from local clays.

## The team

The Open Source Ecology movement was initiated by [Marcin Jakubowski](#). Marcin is a Polish American with a bachelor in chemistry from Princeton and a PhD in physics from the University of Wisconsin. He defines himself as a self-made industrial designer and guides the development of all GVCS tools as the director of OSE and of FeF.

As the movement takes place at a global scale, connected through the net, lots of people contribute from a distance. They designed a way to encourage a [team culture](#) and ask people to join by filling out a survey to explain who they are, what motivations they have and what they could contribute. A few hundred people have been recorded through this survey. It remains however unclear how many of these people are actively involved – but it seems to have helped finding subject matter experts for several areas.

Current core team members include Isaiah Saxon (Media Director), Adrian Hong (Advisor), Luis Diaz (Business Consultant), and Elifarley Cruz (Web Administrator). Let us highlight a few of the active people to get a feel for the composition of the team.

[Elifarley Cruz](#) is a Brazilian Free Knowledge advocate, Free Software developer and contributor to the P2P Foundation. Elifarley is administrator of the web infrastructure for the OSE community.

[Nikolay Georgiev](#) has been working as a software developer. Being born in Bulgaria, he relocated to Germany. Nikolay is in OSE's IT team, works as facilitator in the OSE community and develops proposals for microfunding strategies. Besides, he is helping with organisation and communication in Europe to set up Open Source Ecology Europe and tries to get a FeF started in Germany.

[Mark J Norton](#) is a senior software architect, developer and e-learning systems expert who runs his own consultancy company in the US. He joined OSE in April 2011. One of his motivations is to have the



tools needed to create a self-sufficient life on his farm. He is involved in the LifeTrac and is project leader of the modern steam engine. Besides, he is a True Fan and wiki curator.

[Brianna Kufa](#) is probably the single, most active woman in OSE at this time. She did a dedicated project visit last year (see her [log](#)). She is currently working on the [Ironworker Machine](#). Her family has a background in machine shop work and she grew up in that environment. She was a competent machinist before getting involved in OSE. She plans to fabricate GVCS machines for business purposes in the LA area.

[Yoonseo Kang](#) is a Canadian who's living on site. He's in charge of the CNC Circuit Mill and the Inverter component of the Universal Power Supply.

[Mike Apostol](#), also from Canada, is in charge of the CAD / CAM design of the various tools. He is currently living on-site and helps other people to use [FreeCAD](#) or other Free Software design solutions.

Apart from Brianna (and Rebecca Rojer) there don't seem to be many women involved. This might be a general issue in more technical environments and can be seen in ICT communities at large. Maybe some work could be done to improve the gender balance, as experience and research shows that communities can be generally more effective when men and women work together.

As the real work takes place at the FeF – being the primary R&D site within OSE – motivated people are invited to come for a so called “Dedicated Project Visit”. People visit the FeF site usually from one to three months and aim to work on those tasks they are good at and that are in need. This method works as a way to spread the understanding of the GVCS and FeF to help other groups set up their local versions.

The people living and working on-site rotate a lot, and it is therefore not very clear who actually lives there at this moment; right now that could be 6-7 people.

## Economic Aspects

On the one hand, there are the macro aspects of “distributive economics” and open business models and on the other, the concrete financial expectations at the Factor e Farm.

Let's first review “distributive economics”; what does that mean? According to the [OSE wiki](#): “**Distributive Economics** is an economic paradigm which promotes the equitable distribution of wealth through a combination of: open design (of products, processes, services, and other economically significant information), [Flexible Fabrication](#), and [Open Business Models](#) towards replicability. This means that replication is promoted to as many economic players as possible. Here at OSE, an apolitical approach is taken where design is improved by local solutions without invoking the context of centralized power.”

The idea is that everyone individually or in a group can get access to the machines needed to sustain themselves. While currently gaining access to (and control over) industrial production facilities requires serious capital expenditure, the proposed model works based on free knowledge and peer production. By avoiding patents and restrictive copyright policies and instead sharing designs and manufacturing information through online communities and repositories, far less costs are incurred, while innovation can in principle occur much faster. Instead of reinventing the wheel (or machine or product), global collabora-

tion helps people to be more efficient. This has been shown in the Free Software community and OSE tries to show this for physical machines and products. Their approach is pragmatic and results driven, while working according to their set of founding principles (value driven). Where most open business models focus only on having open access to the product design, OSE's open business model goes much further, as also the means of production are under free licenses and the business organisation as well.

Of course there are lots of hurdles on the road to distributive economics, such as the initial capital investments needed for developing working prototypes, primary resources, finding skilled specialists, ... While much lower than market prices for conventional commercial machines, there is still investment needed. The idea is to stay away from loans that need to be paid back with high interest rates and thus force a more traditional business model. Therefore the approach taken by OSE is that of crowdfunding the development of prototypes of the machinery. At the same time, OSE is "building on the 'knowledge of giants' applied in a modern way", according to team member Nikolay Georgiev, referring to the many other open hardware development communities who share their work under free licenses and enable projects like OSE to reuse that knowledge. In terms of primary resources, an ecological approach is taken to recycle scrap metal and work with materials that are locally available. In terms of skilled specialists, the project has been able to attract people from many places to work together on a global scale. Given that current capitalist industrial production doesn't offer very positive perspectives for increasing parts of the population, more and more skilled individuals get involved in the movement. This is also partly due to the "open business model", where people are encouraged to replicate the experience and set up their local Factor e Farm and start making a living off that.

How are the **financial perspectives** for OSE for the short term? There are several streams of income that are used to continue the development and prototyping of the remaining GVCS tools.

- Current income from True Fans is about 4.500\$/month.
- From the manufacturing and sales of products some 6.000\$/month came in in 2011. This figure is

expected to rise when more machines become productive.

- The crowdfunding campaign at kickstarter brought in some 67.000 US\$.

- OSE is shortlisted to get funding from the Shuttleworth Foundation.

- In order to train and help others to replicate the GVCS tools, one can take a six months immersion training at FeF. This is also referred to as the OSE Fellowship Programme. The trainee or fellow is



expected to get hands-on experience with the various tools and manufacture products that can be sold on the market. The net earnings for the trainee are estimated to be at 30.000 US\$ of which one third is to be paid as training costs to the project.

The project calculates it needs 5,5 million US\$ to build and document all 50 GVCS tools. Help is needed to get to this figure. Don't forget to become a True Fan or make a [donation](#) yourself.

To find out about the economy at the Factor e Farm itself, I asked the OSE team. People living at or visiting the farm for now only need to pay for food, while housing and materials are catered for by the project. The project as such is owned by the founder, Marcin, while the Terra Foundation functions as fiscal sponsor to channel donations. People participating in the project can do that at a volunteer basis or get paid for it, depending on personal needs and project needs (sometimes vacancies are announced).

## Replication

One of the foundational aspects of OSE is its focus on replicability. The habit to help participants in the community at large has shown most effective in online communities from various types. The general idea is that participants in the community share the improvements they make – at least in digital form – so each benefits from the collective work. The idea of sharing and enabling each other comes back in many aspects in OSE.

First, the main ideas and knowledge are shared through various online tools of which the wiki is most prominent. They say: “If it isn't in the wiki, then it doesn't exist” to encourage people to document anything relevant on the wiki. This is also seen as a way to gain reputation in the community.

Second, all explicit knowledge is considered free knowledge and is licensed under free licenses. This applies to blueprints, CAD and CAM design files, bills of materials, test data, documentation, manuals, instruction videos etc. That's why we can consider this really Free Hardware: anyone has the [four freedoms](#) to reuse and replicate as he or she sees fit. A strong example is the so called “[Civilization Starter Kit](#)“, a DVD with all information needed to build the first working machines ready for replication.

Third, the old educational model of mentor-apprentice is used. The experienced makers supervise newcomers when they try to replicate an existing tool. This can be observed e.g. in the [Replication](#) page.

Fourth, they promote the idea of a “distributive enterprise”, which they define as: *an enterprise which maintains the replication of such an enterprise by others at the core of its operational strategy*. That is what others call the right to fork or branch out (in the software domain). Interested people are invited to become an OSE Fellow. Fellows should, with the proper training, be able to replicate the FeF and run their own “distributed enterprises”.

Fifth, local OSE groups have been started up to follow the example of the first FeF in various places. Recently a [chartered programme](#) has been suggested, where local groups can become an official charter. Local charters commit to share a part of their income with the primary farm to invest in R&D which benefits the whole community. Local groups that prefer to be independent are encouraged to list themselves as [independent](#) OSE efforts.

Besides that, regional networks are forming, most notably in Europe. Under the working title of Open Source Ecology [Europe](#) an initial group of around 160 people has joined so far. While much of the groundwork for such sister initiatives can be reused from the main OSE project, still consensus is

needed between the participants on the specific goals and methods, strategies to raise funds and decision-making processes to decide about what to do with them. Interestingly, several local initiatives for buying land and setting up local GVCS facilities are being discussed. The early participants have done field visits to several locations in Spain, Germany, Italy and elsewhere.

## Roadmap

With the current \$1/2M of funding the [plan](#) is to begin rapid parallel development of the GVCS, with the development of 14 further tools in the first months of 2012. From then, the remaining 32 technologies will be developed, building on those first tools, while documenting all results with CAD/CAM design files, howto manuals and instruction videos. When sufficient funding comes in, [this](#) will be invested in prototyping, documentation and field testing, and for deploying a fully-featured, open source CAD/CAM solution.

If those machines are prototyped, tested and stable working versions are deployed, then a real **Microfactory** can be set up. This can be seen as a flexible manufacturing cell, where skilled human operators can produce efficiently the many products that are needed for modern comforts. [In short](#), the Open Source Microfactory is a robust, closed-loop manufacturing system for many kinds of mechanical and electronic devices. It includes the ability to provide its own fuel, electricity, and mechanical power.

## Comparison to other communities

As OSE builds on top of many other successful ideas and communities, it may be good to pause for a moment and see how they relate.

*Free Software* communities: OSE has got much of its inspiration from the 30 year old free software communities, and in fact “open hardware” is directly derived from that, by applying the four freedoms defined by the Free Software Foundation to the sharing of designs, blue prints and documentation. On a more concrete level, OSE also uses all kinds of free software, to run its servers, websites, community and social enterprise systems. And many of the software systems used to run the high-tech machines are free software.

*Free/Open Hardware* communities: OSE participates in several of the most exciting and successful Free Hardware projects and communities. As OSE tries to advance some of the production machines, it contributes actively. The challenge may be to feed back new experiences obtained in the process back into the original projects. Then again, the OSE team shows a strong emphasis to documenting each step in the process so others can replicate. It can be expected that this leads also back into the original projects.

*Maker Culture*: people designing, experimenting with and building their own hardware projects are called makers. Maker culture is a subculture of DIY culture applied to hardware. OSE is clearly part of that culture. Besides, it was the [Make Magazine](#) that was one of the first to publish about OSE to a large audience.

*Ecologic and green movements*: the project is based in ecology and sustainability and provides inspiring examples for transitioning towards a sustainable ecology.

*Transition Towns / Global Villages* movement: The [Transition network](#) supports community-led responses to climate change and shrinking supplies of cheap energy. Related to that, Global Villages are [defined](#) as:

“A Global Village is simply and basically the synergetic relationship between a **local learning center** with access to global knowledge (Telecenter, Hub, Library, ...) on one side with a **local living environment** in which this knowledge can be applied, tested, enhanced on the other side. Together they form a **local habitat** with a global support system.

A Global Village needs to be resourceful in access to the world of information and culture, as well as it needs to be resourceful in access to local resources, material – energetical cycles, inhabitants, processes, biotopes etc. The purpose of a Global Village is to provide a high quality, healthy, satisfactory, secure and sustainable lifestyle to its inhabitants and improve and densify the local life process.”

While the term Global Village was first coined by Marshall McLuhan, it seems that the choice for the name “Global Village Construction Set” is derived from the Global Villages, as defined above.

*Cooperatives and social economy:* first of all the effort of developing the GVCS is a global cooperative effort, where all participants are co-owners, not of the actual physical machines, but of the designs and knowledge that goes into building them. The “distributive economics” and “distributive enterprise” for setting up local Factor e Farms can be seen as an inspiring form of “social economy”. And to prove this, it can be inferred from the enthusiasm in local cooperative movements that have found out about OSE and are considering its adoption.

*Commons:* the commons can be defined as goods, be it tangible or intangible, natural resources or social spaces which are jointly developed and maintained by a community and shared according to community-defined rules. The commons is suggested as an alternative to the dichotomy of state-controlled versus mercantile ownership. How does the paradigm of the commons apply to OSE? It does in several ways as we can see. First, the open access and free licensing of the knowledge in OSE make it a knowledge commons. Second the participatory nature and peer production are typical characteristics of a commons. Third, the vision to enable communities to become self-sustainable is in itself a core aspect of any commons-based project.

*Cooperation and development:* Many Western countries’ policies for foreign aid and cooperation NGO’s include in their goals to help low income countries to become economically independent. While the GVCS and OSE are designed for any community, be it in the North or in the South, it can be expected that the ideas proposed by OSE can be rather inspiring and useful for cooperation and development initiatives.

## Lessons and challenges

In this brief case study we have learnt various lessons and identified several challenges for the project.

- We learnt Open Source Ecology’s radical but coherent proposal to develop our own means of production to cater for most of the modern comforts.
- OSE shows that the ideas of Free Software, Free Knowledge and peer production can be effectively applied to hardware production.



- It is to be noted that a Licensing Policy is still under development. All materials on the wiki are [dual licensed](#) under both the GNU Free Documentation License 1.2 and the Creative Commons Attribute ShareAlike 3.0. But then at some places they refer to the [OSE License](#) which states to use the Creative Commons Public Domain Dedication (CC0). This contradictory situation could leave the legal conditions for replication and reuse in a somewhat weak position. It would be good to see this clarified in a coherent Licensing Policy.
- We learnt the difficulties of physical in comparison with intangible goods:
  - physical goods are scarce by definition, while intangible goods like knowledge and digital artefacts are abundant;
  - the development of the machines require more capital investments than for most digital goods. Nevertheless, the True Fans scheme and crowdfunding experiences show the potential to achieve these goals. For bootstrapping the process, additional grants from private and public sources seem to be necessary.
  - while participation can and does happen in some extent through online channels, the physical nature requires people to be on-site to build, experiment and learn. The Dedicated Project Visits are a way to do real work and learn on-site. Then again, there are only few people steady living on the FeF site, which may difficult practical hands-on knowledge transfer. Besides, not everyone can go to Missouri to spend time. Once more local sites become active in the network, participation can be enhanced and the knowledge might spread easier.
- We saw how you can build your own tools (or order them) that are several factors cheaper than commercial industrial versions. They are sometimes even more productive and in all cases designed for long-time durability, modularity and repair.
- We saw how a strategy of modular design can help bootstrap the process of getting to the goal of building the 50 GVCS tools. The first tools are a prerequisite for building the other ones, so a step-by-step substitution of commercial tools can be made. Once the primary resources can also be extracted or produced locally, the community would become fully self-sustainable.
  - It should be noted that the obtainment of primary resources is location dependent and for most locations some degree of exchange with the market or other communities will be required.
- Instead of depending on patents and venture capital, the core ingredients for building a self-sustainable community are free licenses, open development and crowdfunding. This takes away the interests on loans as cost component and likewise for patent and copyright rents. Both can take up a considerable part of the costs of industrial products and their absence is considered one of the main reasons for seriously lowering product costs.
- OSE shows how a life out of the consumption society and towards a socially just and ecologically sustainable one can be made possible.
- The aim for self-sustainability is not to be confused with isolated hippy communities from the 1960s and 70s. The ideas of OSE build upon the Global Villages idea of forming a local habitat with a global support system.
- While the community spirit is maximum in almost all aspects of OSE's work, the ownership of the Factor e Farm is reportedly solely in the hands of the founder, Marcin. This should not necessarily be a problem, but for the effectiveness of the community a more cooperative set-up might seem logical.
- We also learnt that almost all active members in the community are male. While the focus is clearly on getting the job done, some attention to correct the gender imbalance might pay off

with a stronger community. The vision for a self-sustaining community would for obvious reasons be most successful in the long run if both men and women participate.

## Conclusions

When the machines become replicable and accessible as proposed by OSE, the manufacturing of products can become a service. Local communities with various low-cost machines and capabilities can produce on order and exchange with each other.

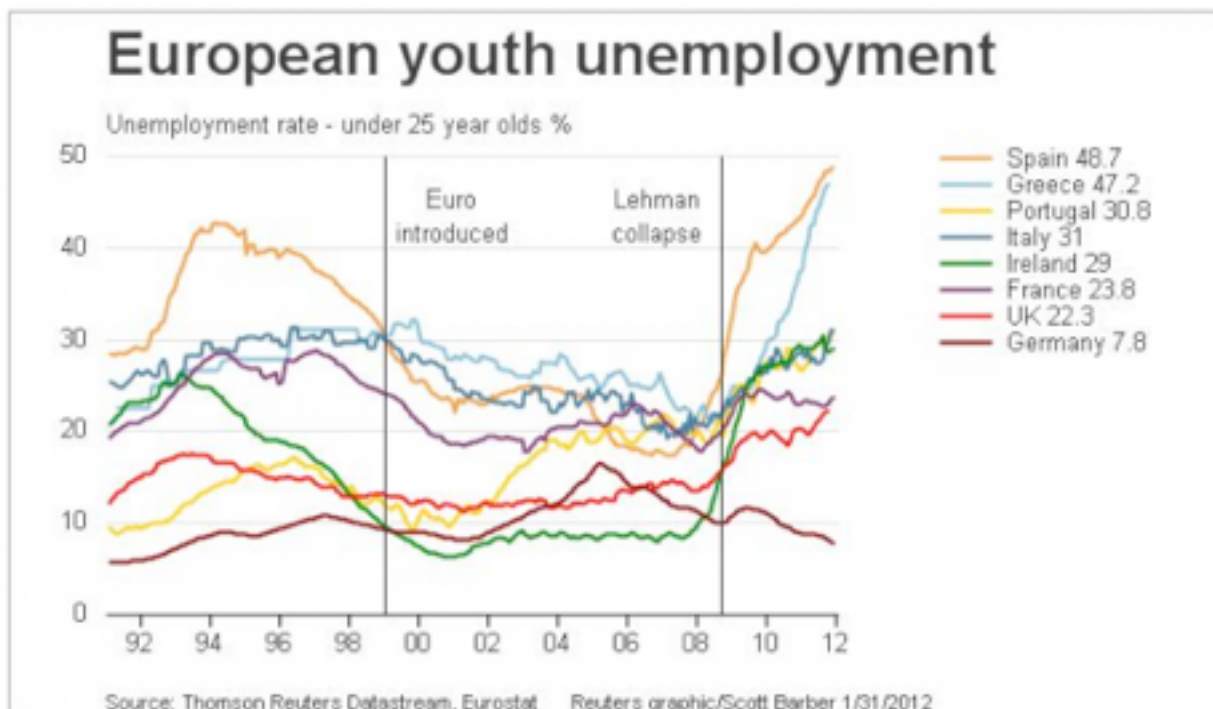
As Kevin Carson points out in his [book](#) the Homebrew Industrial Revolution, the costs for many products we find on the market nowadays are inflated. Carson sees various trends towards a new, sustainable economy. First, he refers to peakoil and the end of cheap oil, which inevitably will make transportation costs go up and will form an incentive to re-localise certain forms of production. Second, the model of mass production is under pressure due to its various inefficiencies (large capital investments, push instead of pull, large marketing costs and large overhead). While for certain standardised products mass production will remain the most cost-effective solution, new opportunities are emerging for small-scale local production. This is especially true if design and manufacturing information are shared through global networks – as shown by OSE.

As Carson and others point out, “intellectual property” is what keeps the markets under control, especially by the larger corporations. This not only leads to various inefficiencies but certainly increases the costs of the products, while not delivering on the demands for product design for lifetime duration, repairability, cradle-to-cradle and modularity (as that would go against the aim for profit and market control). OSE in this sense provides a very pragmatic proof of concept to show that a community of skilled

and motivated people is very well capable of designing efficient machines, prototype and document them, without relying on artificial legal tools like patents and copyrights.

While OSE defines itself as an “apolitical” movement, its vision fits well with various

political and social movements. Much interest can be expected from movements such as ecologists, co-operativists, commoners, left-wing libertarians, freed market thinkers and anti-capitalists.



OSE brings together various social movements, such as the Free Software, Free Culture, Global Villages, P2P and the commons movement. It builds upon their results and tries to give back.

[European Youth Unemployment February 1, 2012](#)

There are many challenges ahead for OSE to break through. Enough donations and income need to be generated to develop the remaining GVCS tools. For that purpose the community strategy and expansion of the network of local charters and facilities is crucial. In order to be most effective organisationally, aspects like the gender imbalance, the decision making processes and ownership issues might need special attention.

The liberating potential of the OSE movement becomes clear. They present a vision for what I'd call a [Free Knowledge Society](#). A society where knowledge is the primary production resource and ICTs are used to create, share and use knowledge for the prosperity and well-being of its people. In such society a mix of various models can live together and operate in the best interest of its participants. OSE presents a very inspiring and promising vision for that. Let us hope OSE continues the success and delivers on its ambitious mission!

## Next issue

**On or about April 1 Matt Larsen on WISPs and  
Tad Deriso on Middle Atlantic Broadband co-operative**