



TULIPOMANIA *DotCom reader*
a critique of the new economy

De Balie
Amsterdam
August 2000



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INTRODUCTION TO THE TULIPOMANIA DOTCOM READER

"For the first nine months of its existence, the company was run on the economic rule of the three C's - champagne, caviar and the Concorde. It's not often you get to spend \$130 million. It was the best fun."

A Boo.com systems analyst, commenting on the brief history of Boo.com in the London Telegraph.

This informal xerox reader brings together the research and results of the Tulipomania conference which took place in Amsterdam and Frankfurt, June 2-4, 2000. The initial concept was handed over to De Balie by Geert Lovink in the late summer of 1999. The idea was to focus on the growing interdependencies between financial markets and the ICT-sector. Computer networks had changed the nature of both the stockmarket and the economy as a whole. The Internet itself was also mutating rapidly into a massified corporatised entity. The ideology of the New Economy for a brief period had become the dominant discourse in the business journals and general news media. The overvalued IT-stocks did not bother many. The promise of a 'Long Boom for Everyone' seemed to justify the huge influx of capital and the "irrational exuberance". Every web site with a business plan could be turned into gold overnight.

Around Christmas, at the turn of the Millennium, with substantial growth rates throughout the Western world, the Dotcommania reached its height. In this period the conference organisers got the green light to go ahead. Together with an active advisory board materials were brought together and speakers approached. The following events pushed the initial interest in financial markets and the debate over a possible global regulation of stockmarkets and electronic currency trading somewhat in the background. Still, the trend we initially noticed became even more clear: not technologists but financial experts were going to determine the course of the Internet.

The announcement of the merger between AOL and TimeWarner, in early January 2000, marked a turning point in the dotcom craze. First cracks in the success story started to appear in February, coinciding with first downturns of the NASDAQ, the dominant indicator of the New Economy stocks. From then on the picture became clear: most of the hyped-up start-ups would eventually either go bankrupt, or be sold to be submerged in the much disdained 'Old Economy'. The NASDAQ crashed by mid-april, six weeks before the planned event in Amsterdam and Frankfurt. This was not a market correction or even a defeat of the entire Internet generation but a financial strategy from the very start. The New Economy concepts had never been advertised as alternatives to the corporate sector. Its drive is money, not technical, let alone social innovation.

Tulipomania did not have the self righteous agenda of outsiders, making fun of all those who had put their money in tech stocks, and lost a fortune when the stocks finally plummeted by mid April. Coming from the cultural sector, with a background in media theory, electronic arts and Internet activism, it was clear that IT and computer networks were going to have a lasting impact on the economy and society at large.

The intention of the organisers was to contribute to a "political economy of the Internet" from a multiplicity of disciplinary viewpoints, combining academic research, media activism, and arts practice with business and Internet development. Tulipomania Dotcom was seen as a continuation and further investigating into "net criticism", a collaborative effort which started back in 1995 around the nettime.org mailing lists and other "net culture" sites and organisations. The critique which we felt necessary had to go beyond the well-known cultural pessimism, demanding surveillance and censorship, and complaints about evil globalisation. Instead, dialogues and discussions we seek should aim at strategies, alliances, and open up new spaces of possibilities and collaboration.

In times of rapid growth of new media as an economic factor, the danger of creating a stagnating cultural ghetto is immediate. The aim of Tulipomania was not to express "Schadensfreude" towards all those who gambled - and lost, nor to mobilise resentment towards the steadily growing number of Internet millionaires. The conference was neither organised to call for state-lead interventionism against the monopolising tendencies of the narrow 'winner-takes-all' business model promoted through the DotCom hype.

There is enough (self)confidence to leave these easy anxieties aside and appeal to a much more powerful, temporary, networked collaborative imagination. Technical skills are no longer enough. Unlike perhaps five or ten years ago, we need a firm, broad, critical, compassionate knowledge of the Internet economy, one in which analysis opens a multitude of possibilities for involvement. The organisers hope to have contributed to this, through this early attempt, in this exciting period of transition.

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Amsterdam, July 29, 2000

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CONCEPTUAL BACKGROUND

Text by Geert Lovink (March 2000)

Until recently, the global financial networks, in which billions of dollars in stocks, bonds and currencies are being shifted around the world in seconds, have operated as a closed entity that relied on proprietary networks and was enshrined in notoriously opaque organisations. Certainly, the first major economic boom of mid-1980s was driven by convergence of new technologies and the behind-the-scenes lobbying efforts.

Since the mid-1990s, this is changing. Multiple gateways to the Internet allow everybody with the necessary capital to become a day trader. Online brokers such as Schwab and e-Trade are booming. In parallel movement, the financial markets have become prime-time news with dedicated channels.

The changes seem to have strengthened the grip of these networks. More and more people have tied their savings to the fate of the market, and more and more media outlets promote the ideologies of speculation. The neo-liberal agenda seems to have become what Ignacio Ramonet calls the 'one-idea system': the deregulated market, seemingly, without alternative. (text at: http://www.ctheory.com/e-one_idea_system.html)

However, rounds of systemic crises in Mexico, Southeast Asia, Russia, and Brazil have had devastating effects, putting tens of millions of people into poverty. The world economy, which has not yet recovered from these shocks, will sooner or later head into the next recession, probably more destructive than any recent one. Faced with this reality, people have begun to question the global autonomy of financial networks, and the neo-liberal agenda of free trade and globalisation behind it.

Thus far, the hardcore macro-economic analysis has not yet been subjected to a thoroughgoing critique, nor have cultural-technological and artistic perspectives been brought to bear. Instead, in the current situation, moral judgements prevail. Radical critique all too easily reverts to emotional defences—of the nation-state and its historically associated institutions of conflict resolution and social compromise such as the trade unions or social welfare (themselves undergoing rapid transformation); of political parties; of public opinion; and so on. Democracy as such seems to be at stake when this defence acts in collusion with reinvented nationalisms, to arm the population against evil outside forces (so-called Jewish speculators, Arab Eurodollars, U.S. imperialism, Japanese expansion, Anglo-Saxon world government, and so forth).

Formerly innovative academic paradigms such as postmodernism and cultural studies are unable to deal with these phenomena adequately; instead, they circle around themselves in increasingly entrenched fights and irrelevant jargon wars, condemning their practitioners and followers to the comfortable jail of self-referential discourses. Since the 'crisis of Marxism' in the mid-1970s, the humanities have seemingly lost track of economics altogether. Social sciences have retreated into the secure domains of fundable academic research. This results in the dominance of the business journalist, the chronicler of our times, who, in most case, does little more than re-working of PR press reviews on yet another glorious IPO.

If the centres of discourse are caught in their own contradictions, though, the fringes are becoming very active. It is now becoming increasingly possible to bring together separate disciplines and practices: the new generation of political economists, anti-MAI, anti-IMF, and anti-WTO activists (June 18/Reclaim the Streets), critical analysts of Internet economics and Wall Street 'casino capitalism,' combined with new media critics and software developers, such as the open source community.

The aim should be to develop attractive and productive concepts for a progressive, non-regressive critique of the very core logic of networked economics. It could be our task—that is, the task of the emerging translocal, virtual intelligentsia situated in the very heart of these networks of power—to understand the very mechanisms, and not just the consequences, of the networked, global economy. It is time to catch up, develop concepts, in order to go beyond the adapt-or-die speech of the Third Way 'visionaries' and their reactionary nationalistic counterparts. It is time to devise strategies to escape the leftist gloom and move beyond activist simplification, which so often confuses the locus with the logic: attacking empty lobbies. The protests against the WTO meeting in Seattle (December 1999) have shown that it is possible for a broad and diverse coalitions of NGOs, trade unions and concerned citizen to put the lack of transparency on the agenda of the global media, and the politicians.

It is of strategic importance to no longer separate the closed world of finance and the so-called 'new economy.' The overvalued Internet stocks and the incredible buying power they produce are but one aspect. The crash of these technology stocks might or might not initiate the next economic crisis. Still, a lot of undercurrents are actually happening which urgently need to be analysed and discussed in public. Is the ICT-sector really boosting productivity? What will be the long-term consequences of decentralised, non-local, 24-hour trading systems? Has anyone imagined what will happen if entire stock-owning populations lose their savings overnight? What is the future of Internet as a public forum when all research and development is going into e-commerce and e-business? Who will own the future backbones? In short, will the once open and decentralised structure of the Internet still be accountable in the 21st century?

Research by Saskia Sassen (*The Global City*) and Manuel Castells (*The Network Society*) have been important sources of inspiration in the making of this concept. The phase of introduction of the new media, in most Western countries is now rapidly coming to a close - and so is networking of the world of finance. The Net is no longer 'commercialised,' it is now the backbone of commerce and business-to-business. Internet and the economy are becoming inseparable.

Public Internet facilities (in both the real and virtual senses) that are not structured for commercial use, or regulated to exclude dangerous content, have been marginalised, or even ceased to exist. Public funding has dried up and, as an effect, the Net has been conceptually 'cleansed,' making way for business. Governments who have once funded basic research into computer network standards, are now merely interested in content regulation and rush to put together legislation for e-commerce. Communication has turned into a residual of e-commerce, with the fate of virtual communities as a sad example. Even the 'Californian' ideology of *Wired Magazine* is about to be pushed out by the really big players, who aren't much interested in libertarian hippie talk, by now common knowledge for the on-line masses anyway.

The recent merger of America On Line and Time Warner, the hype around technology stocks, and the prominence of the NASDAQ Index together symbolise the new formation of networked economic power. But for how long?

Hence, what is called for, is not an alternative trendwatching, but an attempt to formulate a comprehensive critique of the 'New Economy', and to shape a collaborative discourse for those who are developing networks. An informed and pro-active analysis of these new formation should create opportunities to act and intervene in this new environment.



FINAL PROGRAM

• Friday June 2: 10.00 - Opening

Welcome by Rick van der Ploeg
State Secretary for Education, Culture and Science of The Netherlands

General Introduction to the Conference:

Geert Lovink
Eric Kluitenberg

10.30 - Plenary Debate I

The New Economy – Premises and Pitfalls

Moderator:
David Hudson

Key-note Speakers:
Doug Henwood (Financial Journalist, Left Business Observer, New York)
Robin Cowan (Economist, MERIT, Maastricht University)
Pascal Jollivet (Economist, Multitudes, Paris)

12.30 – 13.30 – Lunch Break

13.30 - Afternoon Session I

Debate:
Silicon Valley as a Global Business Model

Moderator:
Ted Byfield

Speakers:
Steve Cisler (Writer / Analyst, San Jose)
Corinna Snyder (Razorfish, New York)
Niels de Witte (NEBIB)

Reinhold Grether (Constance University / Toywar)
Andrew Ross (New York University)

15.30 – 16.00 – Coffee Break

16.00 – Afternoon Session II

Debate:
Alternative Strategies

Moderator:
Felix Stalder

Speakers:
Jesse Hirsh (TAO Communications, Toronto)
Nina Ascoly (Clean Clothes Campaign)
Greenpeace Representative - tbc
Erik Wesselius (Corporate Europe Observatory)
Hans van Heijningen (ATTAC NL)
Gerd Junne (University of Amsterdam)

18.00 - Dinner

20.00 – Plenary Session

Open Public Debate: Inclusion and Exclusion in the New Economy

Moderators:
Geert Lovink & Eric Kluitenberg

Speakers:
Alicia Dogliotti (IteM, Uruguay)
Andrew Leyshon (University of Nottingham)
Simon Lelieveldt (De Nederlandsche Bank (DNB), Amsterdam)

• Saturday June 3

11.00 – Conference resumes – Morning Session

Debate:
Consumer Rights

Moderator:
Eric Kluitenberg (De Balie, Amsterdam)

Speakers:
James Love (Consumer Project on Technology, Washington)
Wibo Koole (Netherlands National Consumer Organisation)
David Mandl (Autonomedia, New York)
Maurice Wessling (Bits of Freedom, Amsterdam)

12.30 – 13.00 – Coffee Break

13.00 – Afternoon Session I

Debate:

Nettocracy: A Class Analysis of the Information Society

Moderator:

Geert Lovink

Speakers:

Michael Gurstein (Technical University of British Columbia)

Alexander Bard, (Business Analyst, Stockholm)

Richard Barbrook (University of Westminster, London)

14.30 – 15.00 – Lunch Break

15.00 – Afternoon Session II

Debate:

Convergence, Mergers and Monopolies

Moderator:

Guikje Roethof (Prezz.com, Paris)

Speakers:

Richard Kramer (Arete Research, London)

Korinna Patelis (Goldsmiths College, London)

Kenneth Neil Cukier (Redherring.com, London)

Michael Latzer (ICE, Vienna)

17.00 – 17.15 – Coffee Break

17.15 – 19.00 – Closing Plenary Session

Strategies for a Sovereign Media Culture

- Regulation of the New Economy: Prospects and Possibilities

- How to Support and Develop the Open Source Movement?

- In Defence of Internet Culture

19.00 – Close of the Amsterdam Conference

22.00 – Cinema De Balie goes Wall Street:

The Bonfire of the Vanities - (Brian de Palma, USA 1990, 35 mm, 125 min)

• **Sunday June 4 - Tulipomania DotCom @ Frankfurter Kunstverein**

16.00 – 20.00 – Afternoon / Evening Session

Eine Kritik der new Economy

Moderators:

Andreas Kallfelz & Geert Lovink

Speakers:

Helge Peukert (Economist / Sociologist, Frankfurt/Wetzlar)

Michael Pluznik & Dirk Siewert (Tiss.com, Frankfurt)

Douglas Henwood (Left Business Observer, New York)

Michael Gurstein (Technical University of British Columbia)

Reinhold Grether (Constance University)

Eric Kluitenberg (De Balie, Amsterdam)

Conference web site, at:

<http://www.balie.nl/tulipomania>



SUMMARIES OF MAIN DEBATES:

The New Economy - Premises and Pitfalls

by David Hudson

The idea that the global economy has undergone such fundamental changes that it can truly be called "new" has become so widely accepted that it's rarely questioned outside certain academic circles, critical journals and conferences like this one. Cheerleaders on round-the-clock financial news cable channels and naysayers on the streets of Seattle alike often base their opposing positions on platitudes that may have once seemed radical but now have all the shock value of a banner ad: Matter doesn't matter anymore; electronic networks have collapsed time and space; "infomediaries" aside, the middleman is dead; intangible assets are genuinely valuable while tangible assets are merely a burden; in short, the industrial age has finally given way to the information age.

Following the keynote talks, this discussion will focus on the validity of these commonplace assumptions and on a few obvious questions: Where did this idea of a "New Economy" come from? How "new" is this economy, really? To what extent can - or cannot - faith in these assumptions make the New Economy a self-fulfilling prophecy?

We'll also want to sort out the winners and losers, their rewards and penalties, whether this latest chapter in economic history represents a very real transformation or simply a mass hallucination.

Silicon Valley as a Global Business Model

by Ted Byfield

With the rise of the internet through the last decade, "Silicon Valley" has been transformed from a quirky scattering of suburban areas south of San Francisco into a success story of mythical and global proportions. At last count, over 90 regions worldwide were vying to promote themselves as 70 types of "Silicon" something: alley, valley, vineyard, swamp, seaboard, glen, fen, mesa, plain, gulch, glacier, and even a polder.[1] The implication is that Silicon serves as a magical meta-glue that can bond technical innovation with financial acceleration to produce new potentials.

In this rush to represent diverse regions as jacked into the globalisation's medium par excellence, the only remaining trace of a region's peculiar qualities often seems to be the dominant geological formation appended to Silicon. Gone are any references to the social, cultural, political, and material histories that define the region and its peoples – the "old" structures that the "new" logic of Siliconia must contend with.

This panel will examine different aspects of these attempts to redefine various entities: urban and suburban development, organisational logic, individual values, and networked environments.

[1] <http://www.tbtf.com/siliconia.html>

Alternative Strategies:

by Felix Stalder

The New Economy is a transnational money machine. The financial markets enable a relatively small number of shareholders to demand ever higher returns on their investments at the expense of virtually all other considerations.

This panel presents a number of initiatives which take the realities of the New Economy as the starting point of their attempts to challenge this machine on behalf of neglected human considerations.

The complexity of this project is reflected in the variety of targets, ranging from individual corporations (Shell, Nike etc.) to transnational institutions (WTO, IMF), from the structure of the financial markets, to the corporate lobbying of the public policy process. The heterogeneity of targets leads to a diversity of strategies. Some advocate radical direct action (Seattle, Washington), others public awareness campaigns (Clean Cloths Campaign, ATTAC), the "infiltration" of corporations through socially responsible investment, and shareholder activism.

The aim of this panel is not just to present the various initiatives, but to critically examine their potentials and pitfalls and find possible synergies among their strategies.

Inclusion and Exclusion in the New Economy

By Eric Kluitenberg & Geert Lovink

The promise of the perfect market on a global scale by the ideologists of the New Economy, bares traces of the old idea that the proliferation of the Internet and digital networking structures, as if by an act of nature, promotes a more egalitarian social and economic system. Networking is considered to provide instant access to information and communication resources, as well instant access to electronic markets world-wide. Implicitly this vision presumes that everybody can have equal access to the networks and the on-line databases.

While it is certainly true that digital networking can have tremendous inclusive effects, and can help to diminish the gap between economic, social and cultural centres and peripheries, it remains questionable if this will happen as if by an act of nature. This panel will investigate the new mechanisms of economic and social inclusion and exclusion that are created by the advance of digital networking technology. To what extent does it promote the interests of established dominant economic actors, and what opportunities for new players on the international markets are created? What does the New Economy look like from a "Southern" perspective? What is the experience from day to day practice in creating electronic markets? And what could be the role of politics in this context, is there a need for intervention or rather for laissez-faire?

Consumer Rights

by Eric Kluitenberg

The Internet creates a transnational consumer market quite unlike any market that existed before. Transnational transactions via the net not only create the possibility of international niche markets with direct interaction between producers, consumers, and specialised niche intermediaries, they also conjure up countless problems around secure payment systems, the consumers' fear of fraud, and issues of accountability of both producers and intermediaries. Micro payment systems and cyber cash are still promises of the future, therefore the role of credit card companies is crucial in the current stage of development of e-commerce. Yet, there is no clear idea how issues of accountability, privacy, taxation and regulation can be dealt with now, nor how they will be addressed in the future.

In the absence of clear government policies, the role of consumer organisations becomes increasingly important. This panel will discuss existing initiatives to represent consumer interests in the sphere of e-commerce. Some of the crucial issues at stake are:

How can accountability be guaranteed in the digital domain?

Are on-line ordering and home delivery really benefiting consumers?

The "No-Service-Economy" of the Net.

How is the issue of privacy at stake?

What are the possible side-effects of Intellectual Property Laws?

Nettocracy - Class Analysis of the Network Society.

Questions formulated by the panellists:

Class? Analysis? In the Networked? Economy?

There is much discussion about a "New (Technology/Internet Enabled) Economy".

Can the old categories of social analysis-class, strata, power–be used or be used in the same way to understand the new dynamics of the New Economy?

Does the New Economy require what could be considered a new sociology?

Is there an electronic class society developing, and, if so, in what ways does it differ from the traditional capitalist class society?

Is money becoming secondary as the basis for social division, to be replaced by "attention" as the new "currency"–as a new medium of "exchange"–as an alternative "commodity" in the new on-line "barter" economy?

Is an "attention" economy a post-capitalist one and if so what are its accompanying social structures?

What happens to identity and systems of law and order if/when the nation-state becomes irrelevant?

What happens to/with democracy in a networked world–is open source guided anarchy scalable?

Do the sorting/indexing processes of an information society rather than the means of production constitute the new sources of social power?

Who controls and rules the virtual world, and what are the deep links of this to the structures of power in the physical world?

What does/would class struggle look like in a "New Economy" world?

Who speaks for whom in an the information society?"

And overall what are we to do?

Convergence, Mergers and Monopolies

By Korinna Patelis

The panel on Convergence, Mergers and Monopolies has a twofold axis. On the one hand it looks at the dynamics of ICT and media markets, and the way in which old and new media are coming together. On the other on how these media markets are been integrated with commerce markets (a non-benign process often referred to as convergence). The markets involved include Telecom companies, ISP's, Cable operators broadcasting corporations, hardware producers, software companies, television

production companies, film producers, on-line content producers, as well as retailers and wholesalers, producers, distributors and advertisers of all kinds of non- media products.

The debate will shed a critical eye at market convergence by unfolding the dichotomies often used to talk about convergence notably domination/liberalisation, content regulation/infrastructure regulation. The question the panel will struggle with is the potential implications of increasing vertical integration at both sides of the Atlantic, both on a regulatory level as well as a conceptual one. Are there in fact differences between the market and policy frameworks in the U.S. and the E.U.? Is it fair to say that we now have one digital economy, where e-communication and e-commerce co-exist? Is there a middleman in such digital economy? What forces distort and form market convergence and the emergent digital economy? What does financial ownership mean in cultural terms? How can this convergence economy be regulated? Should it be regulated at all?



INTRODUCTION TO THE TULIPOMANIA CONFERENCE

by **Geert Lovink**

The idea for this conference goes back to two events in the summer of 1997 in which I was involved.

The first was the meeting in Ljubljana, Slovenia of people on the nettime mailinglist, which I co-founded in 1995. There I called for a "political economy of the Internet" to look at internet backbone ownership, at mergers amongst telecommunication companies, at which software is being written and why, and at the economic rationality behind so-called "digital convergence". Within the nettime community, consisting mainly of artists, activists and academics, was a keenly felt urgency to develop critical understanding of where this new medium, at the eve of its massification and regulation, was heading. Nettime and its formulation of rich and diverse forms of "net criticism" has since attempted to integrate economic power analysis into broader new media theory and practice.

The second event of '97 was the "We Want Bandwith!" campaign, developed and produced by the Society for Old and New Media during the Hybrid Workspace at Documenta X. This project mapped power relations and ownership of the cables and satellites. A follow-up to this campaign took place during the "temporary media lab" in Helsinki last year, with research into so called "free" Internet services. This "Free4What" campaign questioned the business model behind free access, free e-mail, free webspace, even free computers in exchange for private data concerning people's surfing behavior and their response to the commercial services on offer.

The specific ideological formation of the "New Economy" goes back to this period around 1997 when the utopian promises and libertarian ideas of the early Internet generation were being transformed into serious corporate agendas. Since then we have seen three terms: network economy, Internet economy and the New Economy becoming one and the same.

Today, a wish of many of us gathered here is coming true: a conference dedicated to analyse the ways in which the Internet, financial markets and the economy are becoming increasing interwoven. Conferences about the New Economy are usually initiated by venture capitalists and the like in order to create Internet start-ups. It is unusual in an atmosphere of organized optimism to ask critical questions about the ideological underpinnings of the "New Economy" craze, questions of which political agenda is being run, and questions of the social impacts of such new global computer networks.

Like any discipline, economics is a highly specialized field of academic economists, market analysts and journalists writing for financial papers. Until recently reporting about the IT-sector had been somewhat obscure. Overnight, the business pages of the daily newspapers and magazines report about the Internet phenomena in an excessive way – "over reporting" - -fueled by an inflation of online news services, which, in most cases, have no other source than the press release of the company announcing its listing on the stockmarket, or latest quarterly results. This information overload makes it hard to keep an overview, instead, everyone is sucked into its vortex.

The Internet is in a phase of hypergrowth in terms of users, webpages and services. At the same time there is an accelerating interdependency between IT development and stockmarket fluctuation. The speed of events, from craze to crash in a few weeks, makes it difficult for observers and players alike to develop a longterm view of where the Internet and our network society as a whole should go. The Internet is by no means a natural phenomena.

Tulipomania Dotcom brings together economists, Internet experts and people from the cultural field. The aim is to have a working conference, to open debates and exchange, to formulate a critique of the New Economy beyond the usual peptalks, corporate bashing or European cultural pessimism warning of an impending electronic apocalypse. Our view here is one from the inside, from within the networks, operating on the assumption that strong analysis will lead to more pertinent action - in the belief that the direction of the Internet and the economy can be strategically influenced.



THE NEW ECONOMY – PREMISES AND PITFALLS

by Douglas Henwood

I hope we're not too late with this - is there still a New Economy? After the carnage on the NASDAQ since its April high has been pretty awe-inspiring. After shooting up some 80% last year, the most spectacular performance by any major stock market index anywhere at anytime in history, the decline from the late-March highs, 36%, is one of the sharpest and quickest anywhere in history. And since, as I'll argue in a bit, the New Economy rhetoric is in large part a byproduct of the bull market, the bull's death may well mean the death of the New Economy discourse. Not yet, I hope; I have a book called A New Economy? coming out from Verso later this year. Luckily I haven't quite finished it yet, so I can keep up with the latest developments, which means the last quote on the NASDAQ.

What do we mean by the New Economy? The canonical version is relentlessly, almost deliriously optimistic. It goes something like this. Finally, after a long wait, the computer revolution is paying off economically. It used to be, as the economist Robert Solow famously put it, that that revolution was visible everywhere but in the statistics. Now, with U.S. productivity stats surging forward, Solow's quip has to be retired. I took some time for people and organizations to learn how to use computers (broadly defined, of course, to include all kinds of high-tech electronic gadgetry), but now they've finally learned. All that hardware, now linked from local area networks to the global Internet, along with with a political regime of smaller government and lighter regulation, has unleashed forces of innovation and wealth creation like the world has never known before. Flatter hierarchies and more interesting work are the social payoffs; rising incomes and an end to slumps the economic payoffs. Quality replaces quantity, knowledge replaces physical capital, and networks replace hierarchies.¹

Along with these qualitative claims have come some quantitative ones as well. Allen Sinai, president of the consulting firm Primark Decision Economics and a prominent televised talking head, told Bloomberg magazine, "The nineties have been the best decade for the U.S. economy going back to the 1850s. We woke up to the idea that spending and borrowing our way to prosperity was wrong. We raised taxes and took a turn toward a budget surplus. We took advantage of our unique free-market system of incentives that encourage entrepreneurship, and which put us in the lead in high tech. Our society responded, and all kinds of good things happened" (quoted in Goldman 2000).

Almost everything Sinai says deserves a clarification, if not an outright correction. Measured by GDP growth rates, the most conventional and fetishized number in all of economics, it's hard to see how the 1990s were "the best decade for the U.S. economy going back to the 1850s"; 19th and early 20th-century growth rates were pretty ripping by modern standards. U.S. GDP growth averaged 3.9% between 1850 and 1914 the 3.2% average of the 1990s is considerably lower, and little different from the growth rates clocked in the 1970s and 1980s, and well below that of the 1960s. "We" - whoever that is - have certainly not stopped spending and borrowing; this is the most consumption-intensive expansion since World War II, and while the federal government has stopped borrowing, households and businesses have most certainly not, nor has the U.S. as a nation collectively stopped borrowing abroad. And the issue of the private sector's unique and ineffable contribution to technological development is one of the most mystified aspects of U.S. economic life. Yesterday's favorite miracle, the Internet, was initially a project of the Pentagon, as was the computer itself; the government picked up the basic R&D costs for decades, when neither Wall Street nor private industry showed any interest. In fact, capital only became interested when the startup costs had all been borne by the public sector and there were finally profits to be made. And today's miracle, biotechnology, also owes its existence to federal largesse, with basic research having been funded for decades by the National Institutes of Health and other public entities, and private industry now showing a passionate interest only because there are finally some profits to be made.

Claims about New Eras have plenty of historical precedents, as do their association with great bull markets in stocks (see Shiller 2000, chap. 5, for a review). Perhaps the first episode, at least in modern history, was one around 1901 - which, like the current one, was jacked up with New Century fever; similar enthusiasms erupted in the late 1920s and late 1960s. The latest episode struck sometime in the mid-1990s; Shiller (2000, p. 97) cites several pioneering newspaper and magazine articles from 1996 and 1997, a tendency given quite a shot in the arm when it was endorsed by Alan Greenspan. What a difference from 30 years earlier! Then-Fed chair William McChesney Martin publicly expressed anxiety that speculation was getting out of control in the mid 1960s, in a

fashion reminiscent of the 1920s, citing as evidence "the spreading conviction among the public that 'a new economic era' had begun" (quoted in Shiller 2000, p. 224).

It's remarkable how similar the language of the various New Eras have been. The early days of the telegraph were laden with fantasies of universal peace, love, and understanding), very similar to some of our more fervent web enthusiasts - and even "web" metaphors themselves were common (Standage 1999). And the language and thinking of the 1960s New Era is uncannily like today's, even down to its journalistic source, Business Week, and the familiar trope of Euro-envy. In 1965, the magazine patriotically enthused (quoted in Grant 2000b):

Some European central bankers and economists have been watching the U.S. economy with utter amazement, some apprehension, and not a little jealousy.

By all their rules, the U.S. economy should have started long ago to show the signs of strain that are the inevitable prelude to a bust. Yet, despite an expansion that has carried gross national product up a startling 30%, or 150 billion, over the past 4 1/2 years, the economy remains generally free from inflationary pressures and imbalances. And the businessmen who run the show fully expect their trouble-free prosperity to continue. The underlying factor behind this remarkable performance, so baffling to the European traditionalists, has been a sharp rise in productivity.

The magazine went on to cite the splendid rise in productivity growth since the 1950s, and to quote a Milwaukee CEO as saying "I see no end to the gain in productivity."² Unfortunately, productivity gains topped out just six months after those words were published, slid into the early 1970s, recovered a bit, then lapsed into the much-lamented productivity slowdown that extended into the mid-1990s. Inflation bottomed out at year-end, and the great and troublesome inflation of the late 1960s and 1970s was almost upon the land. The next year brought the first post-World War II financial panic, the credit crunch of 1966, and the beginning of the slide in corporate profit rates that lasted into the early 1980s. CEOs and journalists should heed the biblical correlation of pride and imminent falls.

Baffler editor Tom Frank (personal communication) says that the earliest claim he could find for the existence of a "new economy" was a 1988 speech by Ronald Reagan at Moscow State University. In it, Reagan said <<http://www.idgop.org/docs/reaganm.htm>>: In the new economy, human invention increasingly makes physical resources obsolete. We're breaking through the material conditions of existence to a world where man creates his own destiny. Even as we explore the most advanced reaches of science, we're returning to the age-old wisdom of our culture, a wisdom contained in the book of Genesis in the Bible: In the beginning was the spirit, and it was from this spirit that the material abundance of creation issued forth.

Reagan invocation of Scripture isn't standard in the New Economy literature, but there's no small amount of mysticism and true believhood in the doctrine. As Frank pointed out to me, Reagan's line was straight out of George Gilder, who was undoubtedly doing the Gipper's thinking for him, just as he did on social policy.

Back in the summer of 1987, when the Eighties were at their Roaringest, an interview with Gilder ran on the now-defunct Financial News Network. Gilder argued that the U.S. trade deficit was nothing to worry about. Trade figures count only things, but what really makes the world move today is information: today, capital bounces around on satellites and dances up and down fiber-optic cables. Oddly, Gilder treated the terms "information" and "capital" almost as if they were synonyms.

Two years later, Gilder published *Microcosm*, a book that takes as its theme the "overthrow of matter." On the first page of chapter 1, we learn that "The powers of mind are everywhere ascendant over the brute force of things." Though the primacy of the mind over matter is hardly a new idea in Western philosophy, Gilder writes as if it is. His

universe consists of ideas and the heroic individuals who think them; his rejectamenta consist of matter and its partisans, the dialectical materialists of the Marxist tradition and the pragmatic materialists of mainstream thought. Society, and with it labor and the state, virtually disappear from Gilder's view, except in the form of the fickle and everdynamic "market."

It's tempting to dismiss Gilder as a lone nut, but in fact he's quite influential, and his line on matter's overthrow has also long been celebrated by Federal Reserve chair Alan Greenspan in a 1988, op-ed piece in the Wall Street Journal, in which Greenspan noted a general trend towards tininess. Chips have replaced vacuum tubes; Thinsulate, fur; and terabytes, paper securities; and intangible, knowledge-dependent services, bulky old-fashioned goods. "In fact, if all the tons of grain, cotton, ore, coal, steel, cement and the like that Americans produce were combined, their aggregate volume would not be much greater on a per capita basis than it was 50 or 75 years ago," he argued with stunning banality. Greenspan's celebration of the immaterial looks especially odd in the light of his youthful faith in the gold standard, one of the most curious of the materialist superstitions. In making his argument, Greenspan apparently ignored the evidence of his own agency's industrial production indexes, which showed per capita U.S. manufacturing volume up over threefold in the fifty years before he wrote these words, and more than sixfold over the seventy-five years.

Ten years, and another 26% increase in per capita industrial production later, Greenspan returned to this theme, in Congressional testimony in September 1998.

We have dramatically reduced the size of our radios, for example, by substituting transistors for vacuum tubes. Thin fiber-optic cable has replaced huge tonnages of copper wire. New architectural, engineering, and materials technologies have enabled the construction of buildings enclosing the same space but with far less physical material than was required, say, 50 or 100 years ago. Most recently, mobile phones have been markedly downsized as they have been improved. As a consequence, the physical weight of our GDP is growing only very gradually. The exploitation of new concepts accounts for virtually all of the inflation-adjusted growth in output.

Taking advantage of one of those New Economy miracles, I learned from a visit to the New York City sanitation department's web site that the city produces 26,000 tons of garbage every day. This is some weight we could all do better without.

It's not just pop journalists and revered central bankers who celebrate the New Paradigm, it's also academics at prestigious business schools. One of the boldest is Baruch Lev, a NYU accounting professor who has shed his field's reputation for caution: he wants to put numbers on "intangible assets, ideas, brands, ways of working, and franchises," as an introduction to an interview with Lev in the New Economy bible Fast Company put it (Webber 2000). Lev argues that the 500-year old discipline is simply inadequate to the ineffable glories of 21st century capitalism. Today, knowledge, not things, rule. That's a fashionable point of view that assumes our ancestors were dolts, as if the wheel and the power loom weren't productive embodiments of knowledge. Things get interesting when Lev gets specific. He thinks financial statements should recognize four kinds of new era assets: 1) "assets associated with product innovation," which presumably includes everything from a new microprocessor to a new kind of cereal; 2) "assets that are associated with a company's brand, which let a company sell its products or services at a higher price than its competitors; 3) "structural assets - not flashy innovations but better, smarter, different ways of doing business that can set a company apart from its competitors; and, 4) "monopolies, companies that enjoy a franchise, or have substantial sunk costs that a competitor would have to match, or have a barrier to entry that it can use to its advantage."

These are quite extraordinary thoughts. It's not too hard to swallow point 1), if we're talking about a real technological advance; it's a bit harder if we're talking about a fresh variant on Frosted Flakes. But the rest is a lot harder to take.

One of the cornerstones of New Paradigm thinking is the curious doctrine that "brand equity" - the financial value that stock markets assign to names like Nike and Mickey Mouse - is a kind of capital, like a lathe or even a piece of software.

It's easy to see how even privately held assets of that more conventional sort can contribute to social wealth; unless they belong to a bomb factory, their produce can make people better off (even if the profits they generate are appropriated by a handful of managers and shareholders).

But a "brand," as Naomi Klein (1999, p. 22) puts it in her excellent book *No Logo*, is a kind of "collective hallucination." Nike may gain from selling shoes at \$150 that cost a few dollars to make - as do its ad agencies and the media where it plasters its swoosh and Michael Jordan for hawking his branded shoes - but it's hard to see how society as a whole does. (I'm leaving aside the fact that there are actual workers who make the swoosh-festooned shoes who simply disappear in the New Paradigm analysis; just because a commodity is hyper-fetishized doesn't mean there are no human toilers lurking behind it.) The vast markup over its costs resembles what economists call a monopoly rent, the extraordinary gain over a "normal" profit enjoyed by a nicely situated producer with the market power to gouge buyers. The \$100 premium, say, over the price of a modest unbranded shoe is money that could have been spent on other goods or services. Nike's gain from its brand mystique is simply other vendors' loss. If the other vendors could figure this out, they might get angry, but there's a good chance they're participating in the collective hallucination as well.

Lev's point 3) is almost too insubstantial to refute; how can even the most creative accountant put a monetary value on a "smarter" way of doing business? But 4) is a beauty: monopoly is spun as something to celebrate, at least by the accountant's concept of celebration. No longer would the claim of monopoly position attract the interest of regulators or the antitrust division of the Justice Department: it'd be something to boast about on the balance sheet.

Lev has some more curious ideas, the most curious perhaps being that accounting is far too fixated on the "transaction," the exchange of money for a good or service. Rejecting several centuries of capitalist history in which the sale of a commodity for more money than it took to produce it - profit - was the system's reason for being, Lev argues instead that in the New Economy, value is created in far more ineffable ways.

When a drug passes its clinical tests, huge value is created - but there's no transaction. Nothing changes hands. Nobody buys anything and nobody sells anything. When software passes a beta-test, it suddenly becomes valuable - but there's no transaction. Or think about how value is destroyed: When a big, old company is late in figuring out how to enter the world of e-commerce, huge value is destroyed - but there's no transaction.

Lev is speaking here from the point of view of the stock market, which is what creates or destroys "value" by these criteria. But what he seems to forget is that these movements of value anticipate transactions: the new drug, or the new piece of software, is valuable only because it will result in future sales.³ If no one buys these products, the value is illusory. So too the destruction of value; if the lumbering behemoth is slow with its website, it only matters if it loses sales to nimbler competitors. It's hard to see how even the most advanced outpost of the New Economy can leave the transaction behind forever. For now, investors may be willing to buy the stocks of dot.com's whose prospectuses promise years of vast and expanding losses, but it's hard to imagine that indulgence lasting forever.⁴

New Economy thinking is inseparable from the bull market; it's both its intellectual byproduct and retrospective justification. Not to pick on Lev - though he's an irresistible

target - but the relation is nicely illustrated by his claim (Lev 2000) that since the market value of the companies in the Standard & Poor's 500 index was 6.25 the firms' book value,5 "in the U.S., knowledge assets account for six (!) of every seven dollars of corporate market value" (exclamation point in original). So, you see, knowledge assets drive the New Economy. How do we know this? Because the stock market tells us so. How do we know the stock market is right? Well, it just is.

This makes for an interesting history, not that New Paradigmers are terribly interested in history. Using Baruch's measure of IQ, corporate America got three times smarter from 1948 through 1968, then came down with a serious bout of idiocy between 1968 and 1981 (maybe it was all the drugs), only to recover during the Reagan years (maybe it was Ron's personal example), and then achieve unprecedented levels of genius in the 1990s. Indeed, corporate America's brainpower tripled between 1990 and 1998. Truly these are wondrous times.



And democratic ones too! Along with the extraordinary economic and even spiritual claims for the New Era have come some political claims, In a January 26, 2000, talk at the Columbia Journalism School, former Citibank chair Walter Wriston said that the net was like a "giant voting machine," which allowed capital to stay where it is well-treated and promptly leave places where it isn't. Like Gilder, he used capital and information almost interchangeably, calling this regime an "information standard," that replaces the old gold and paper money standards. How the volatile preferences of a relative handful of portfolio managers constitutes democracy, Wriston didn't say.

The democratization of finance is another popular New Era theme. New technologies are frequently said to overturn old hierarchies, leading to a virtual social revolution - not in the very old-fashioned world of organized politics, of course, but in the new one of wireless web connections.6 When I interviewed Wired's Kevin Kelly, I interrupted his effusions to ask him what relevance in a world where the statistics showed that the gap between rich and poor - nationally and globally - has never been so wide, a world where half the population has never even made a phone call, Kelly responded by saying there's never been so good a time to be poor. Fortunately for him, he wasn't speaking from first-hand experience.

Moving up the social ladder from absolute indigence, we hear some grand claims. For example, we hear constantly that mutual funds and web brokers have enabled Main Street to prosper at the game that used to be Wall Street's monopoly. While it's true that a bit over half of U.S. households now own stock, an all-time record, it's never mentioned that wealth, like income, has never been so concentrated, and that regardless of how many households may own some shares, either directly or through mutual funds, most people have insignificant amounts of wealth. In 1998: the richest 0.5% of the U.S. population had 31% of total investable wealth (excluding the principal residence); the next 0.5%, had 9%, giving top 1% control of 40% of the total. The next 9% held 36%, giving the top 10% control of over three-quarters - 76% - of all the boodle, leaving bottom 90% with 24%. Within that bottom 90%, almost all of the lucre is packed in its upper reaches, meaning that the bottom two-thirds of the population has essentially nothing. Almost a third of U.S. households have no financial wealth at all; their net worth is either

zero, or they're net debtors. And according to estimates by NYU economist Ed Wolff, while the richest fifth of U.S. households could maintain their standard of living for a year and a half if their income stopped and they were forced to draw down their savings, the average household would be hard pressed to last more than a month or two. A middle-income household's \$5,000 or \$10,000 mutual fund account may feel like a lot to them, but it doesn't count for more than crumbs in the scheme of things.

I've noted several times the intimate relations among the bull market, the Internet, and New Era thinking. Extraordinary stock valuations - literally without any precedent since good numbers begin in 1871 - are justified by appeal to an alleged technological revolution. The more statistically minded point to the burst in reported productivity growth that started in the late 1990s. Whether this is a long-term thing or not isn't clear yet; it's going to take a few more years to tell whether the productivity slump of the 1970s and 1980s is over or not. But even enthusiasts rarely bother to delineate the mechanisms linking the net to the productivity burst. It may be that very unglamorous things - the cheapening of labor through outsourcing, the movement of much of production to low-wage countries, continued unwillingness of firms to share their good fortune with employees, and what the people at Labor Notes call "management by stress" (pushing human workers and work arrangements to their breaking point and maybe a little beyond) - are the real underlying mechanisms. It may also be that people are actually logging lots more hours on the job than gets recorded in the official statistics. Or it may be, as economist Robert Gordon (1999) argues, that the productivity blip is a statistical illusion, attributable entirely to the production of computer hardware itself. Gordon argues: There has been no productivity growth acceleration in the 99 percent of the economy located outside the sector which manufactures computer hardware, beyond that which can be explained by price remeasurement and by a normal (and modest) procyclical response. Indeed, far from exhibiting a productivity acceleration, the productivity slowdown in manufacturing has gotten worse; when computers are stripped out of the durable manufacturing sector, there has been a further productivity slowdown in durable manufacturing in 1995-99 as compared to 1972- 95, and no acceleration at all in nondurable manufacturing.

Passages like this provide a fresh gloss on why economics is known as the dismal science; New Era's are so much more fun. But maybe the Internet does have some responsibility for giving birth both to the bull market and New Era thinking. Robert Shiller (2000, pp. 19-21), an economist rare for his interest in the influence of psychology and faddishness on financial trends, argues that the spread of the Internet into the homes of the many - particularly the more upscale many who trade stocks - has spread the impression that the world has changed. The net (not unjustifiably) gives people a feeling of power, of cosmopolitan reach - sensations that might lead to an impression that it's of great economic significance. But there's been no explosion in profitability on a par with the explosion in stock prices or the hype that's gone with it; it's merely that investors have been willing to chase stocks at much higher levels of valuation than at any time in the past. In other words, in the famous price/earnings ratio formula, prices have gotten way way ahead of earnings. More generally, Shiller points out, new technologies don't necessarily guarantee higher profits; if new gadgetry simultaneously requires heavy spending and renders old gadgetry obsolete. it could as easily depress profits as stimulate them. "What matters for a stock market boom," writes Shiller, "is not...the reality of the Internet revolution, which is hard to discern, but rather the public impressions that the revolution creates. Public reaction is influenced by the intuitive plausibility of Internet lore...." And there's been no shortage of appeals to intuitive plausibility, from high theory to low journalism.

It's a bit too easy to make fun of Greenspan, Kelly, Lev, Gilder, and Sinai; it's people who should know better that really depress me. Supposedly critical social theorists - Manuel Castells, Fred Jameson, or, more hilariously, Jean Baudrillard - seem to accept Gilder and Greenspan, translating them from cheerleading journalese into clotted academese.

Capital has become weightless and placeless, if it can be said to exist at all.

I feel very old-fashioned in pointing out a few facts about this apparently weightless, placeless capital. Financial markets, as fanciful as they sometime seem, are institutions that consolidate ownership and control among the very rich of the world. A significant degree of the damage done to Southeast Asia in 1997 and 1998 and to Mexico in 1994 and 1995 was done by allegedly weightless financial flows. Closer to home, government bond markets exert strict discipline on the economic policies of national and local governments, and shareholders have been exerting strict discipline on the companies they own. The wave of corporate downsizings in recent weeks is an example of the kind of corporate policies they've been pushing on managers for the last 15-20 years.

And, drawing on a point made by Ursula Huws (1999), while the physical commodity - the one, in the classic definition, you can drop on your foot - may be diminishing in importance relative to services, many of those services are the commodification of activities that were once performed without the exchange of money (and much of that labor, whether paid or unpaid, is disproportionately performed by women). McDonald's replaces the home-cooked meal, commercial laundries replace in-house washing, paid childcare replaces the unpaid maternal kind⁷. and now there are signs all over Manhattan advertising a service called UrbanFetch.com, which will do your shopping for you (though it remains to be seen if this, like many e-schemes, has any real future to it). Or, services formerly performed by nonprofits, like education, are increasingly the realm of profit-seeking entities, from Chris Whipple's Channel One to the University of Phoenix. By focusing just on the form of the commodity - good or service - partisans of weightlessness overlook the monetized social relations behind even the most insubstantial virtual wares. Monetized social relations may be encouraging myths of weightlessness in one largely unappreciated way. As Barbara Ehrenreich (2000) noted in a very fine essay on the growth of domestic labor:

To be cleaned up after is to achieve a certain magical weightlessness and immateriality. Almost everyone complains about violent video games, but paid housecleaning has the same consequence-abolishing effect. ... A servant economy breeds callousness and solipsism in the served, and it does so all the more effectively when the service is performed close up and routinely in the place where they live and reproduce.

Ehrenreich ties the growth in the professional/managerial class's use of domestic labor to the broad polarization of U.S. society - the polarization of incomes, which leaves creates an affluent upper middle class capable of hiring a plentiful supply of poor women, and the polarization of work, "where so many of the affluent devote their lives to such ghostly pursuits as stock-trading, image-making, and opinion polling," which renders physical work largely invisible to the opinion-making class. With our shoes made in Indonesia, our cars assembled in Mexico, and a Jamaican to scrub the toilet, it's easy to think that stuff doesn't matter anymore.

I might also point out, like the wet blanket I am, that the supposedly weightless, frictionless Net economy itself has been having unpleasant encounters with the material world lately - and I'm not just talking about the painful sound of venture capitalists closing their checkbooks. Amazon.com has been spending \$300 million to build warehousing and distribution centers; it found that it needed to control its own inventory (such an old-fashioned concept!) to provide good customer service. The industry also thrives on hordes of low-wage workers to sit in cubicles answering customer emails or picking and packing and shipping all those funny old goods.

So is there a "New Economy"? Yes, in some sense; a capitalist economy is always new. But is it newly new? I don't think so. There's a lot of ancient holdovers persisting into the present. As later chapters in this book show, the labor market is producing plenty of snazzy jobs, like image consultants and systems analysts, but it's also producing lots of mundane ones, like security guards and home health aides; projections for the fastest-growing job categories are palpably skewed towards the relatively low-skilled and low-paying. Technology may be making some jobs more interesting, but it's deskilling lots of others (that's what the early-2000 Boeing engineer's strike was all about) - and it's increasing employers' powers of measurement and surveillance over workers. In the late 1990s, income distribution measures were at their most unequal in 60 years, and world income distribution - North-South gaps - has never been so unequal since decent estimates begin around 1820. Yes, financial markets and production has been internationalized, but "globalization" has been a feature of capitalism from its earliest days. Yes, finance seems to have become hyperactive, but bubbles too are an old story, and it's easy to miss the role of financial markets as political instruments of ownership and control. And the social philosophy that governed economic policymaking in the late 20th century is in many ways hard to distinguish from that of 100 years earlier, though publicists and graphic designers have made it look a little slicker than it was in Herbert Spencer's day.

But maybe, finally, there is something new, as the 20th century turned into the 21st. When I used to talk about the New Economy in the second half of the 1990s, I'd conclude by saying that something else that was new was the sense of resignation among workers and left intellectuals, a feeling that the world could never change. New Economy and "globalization" rhetoric contributed no small amount to this; leftish worrywarts like Stanley Aronowitz and Jeremy Rifkin sometimes read like Wired magazine with negative signs exchanged for their positives. But I no longer want to say that. In the last few years, we've seen the growth of a new radical political agitation, one that's fighting on the terrain of political economy. It's broadly anticapitalist, even if it doesn't think of or name itself as such. We've seen it in the fight against the Multilateral Agreement on Investment, in the globally coordinated demonstrations (and a full-fledged riot in the City of London) around 1999's G-7 summit, and, most exuberantly in Seattle late last year. In the U.S., there's been an explosion of student activism around sweatshop and living wage issues - much of it in collaboration with unions, who are showing increasing signs of life - and a lot of young people, very visible in Seattle, are revolted by the money culture and the commodification of everything. All these movements are linking up organizationally and intellectually, thanks in large part to the Internet. I doubt that's what Thomas Friedman and the Boys of Davos have in mind when they talk about technologically driven globalization, but I find it inspiring. I'm temperamentally a bit of a pessimist, but I haven't felt so politically optimistic in a long time. If my deconstruction of propagandists' claims for a New Economy contributes anything to these new movements, I'll be very happy. This is only the second time I've ever concluded a talk with the word "happy" - the first being a version of this I gave in Toronto two months ago - so let me once again savor the moment.

Notes:

1 - For a classic statement, see Wired's "Encyclopedia of the New Economy" at <http://hotwired.lycos.com/special/ene/>. There's also former Wired editor Kevin Kelly's "New Rules of the New Economy," <http://www.wired.com/5.09/networkeconomy/>, as well as his exuberant but thinly argued expansion of that article into a book, *New Rules for the New Economy* (Kelley 1999). Kelly - now deposed as editor of Wired, a magazine

that the digerati now deem long past its prime - combines born-again Christianity, Social Darwinism, and classic American hucksterish optimism into a single package.

2 - A few months later, in September 1965, the same magazine cited several reasons why a pickup in inflation was unlikely, among them the absence of supply bottlenecks, small wage gains, high productivity gains, and well-behaved unit labor costs (quoted in Grant 2000b). This list also looks quite familiar to the student of the most recent New Economy.

3 - Maybe he was just pandering to a popular audience in the Fast Company interview. In a paper posted on his website (Lev, n.d.) says that the announcement of a drug approval can result in up to a 2% pop in the stock price. After disclosing this, Lev then asks himself a question, which he promptly answers: "Why not wait for the consequences of innovation activities to be realized in the form of products' revenues and earnings? In most cases, the interval between initiation or even maturation of product development and the ultimate realization of revenues extends over several years. In the meantime, selling shareholders and employees exercising stock options lose when the stock is undervalued, and new stock issues into an underpriced market dilutes shareholders' equity." If the revenues and earnings don't materialize, and thereby justify the 2% pop, then that's a kind of mispricing, but it's much more fun than waiting years!

4 - It may already be waning, as of early 2000. A study by The Industry Standard, a net trade journal, showed that web firms who couldn't get their ad spending under control were finally being punished with lower stock prices (Mowrey 2000). Still, most web firms, The Standard also reports, spend more in advertising than they get in ad revenue; Salon.com, an excess champ, spent 269% as much selling itself as it took in from its advertisers.

5 - Book value equals the sum of the value of a firm's physical and financial assets less its debts and other liabilities.

6 - New Economy companies, it seems, don't perform very well at diversifying their boards of directors. The headhunting firm Spencer Stuart found in a study of 100 net-related companies that the boards are generally smaller than normal big-company boards, with "a paltry 3%" of boardmembers are women. Members come overwhelmingly from the fields of technology and finance, meaning a limited range of business experience, and with few mechanisms to scrutinize management, like independent audit committees, common features of more normal boards (Ridge 2000).

7 - Apropos paid childcare, a delicious factoid about the U.S. labor market is that parking lot attendants - mostly male - are paid more than child care workers, who are mostly female.



MENTAL LABOR IN THE NEW ECONOMY

by Andrew Ross

Advance waves of no-collar labor first swept across the shores of Wall Street when office managers, conceding a barely-begun struggle, declared "Casual Fridays" as the order of the day. Dress codes and other protocols of workplace formality were to be relaxed on the least industrious day of the workweek. While starchy diehards growled about the abatement of the American work ethic, evangelists of "re-engineering" and "fast companies" welcomed the custom as a bold innovation; workers would feel their

personality was being acknowledged, and that their workplace was less alienating on the day it was most perceived to be so. Introduced by the employer, this new custom ironically evokes memories of Saint Monday, the pre-Taylorist working class tradition of mass absenteeism at the close of the weekend. After all, Casual Friday was intended to energize white-collar workers by making them feel at home, rather than at work; all the more present from feeling like an absentee.

Far from spontaneous, Casual Friday is part and parcel of the new wave managerial ethos that preaches the leveling of workplace hierarchies. Employees are to feel empowered and individualized, workplaces are to feel fluid and recreational, and work is to be liberated from rigid, bureaucratic constraints. After several decades in which Americans were encouraged to find the true meaning of themselves in leisure time and consumption, work, according to this ideal, is once again the place where our identity is to be most deeply felt and shaped. Perhaps this is just as well. The U.S. boasts an economy where the amount of leisure time available to workers has been in steady decline since the early 1970s, and where chronic overwork, and not unemployment, is the primary feature of the labor landscape. Since there is no easy return to the days when a clear demarcation between work and leisure existed, the efforts of the new managerialism are aimed at dissolving the boundaries as much as possible.

For the most advanced and entrenched examples of this ethos, you would have to pay a visit to Silicon Alley, where the webshops of the New Economy have been at this game since the mid-1990s when start-up companies first began to colonize Manhattan's downtown manufacturing loft spaces. In these fledgling days, the physical culture of the New Media workplace was more or less an extension of the grungy artists' loft. When dot.com mania broke out, and the Alley was flooded with venture capital, ritzy designers were hired to create setpiece interiors. Trophy environments at companies like Screaming Media, DoubleClick and Oxygen Media featured flexible, communal spaces, where cubicles were banished, and walls were rendered translucent. The office was re-imagined as a giant, multi-purpose playroom for an ever-shifting team of workers. Cool, buzzworthy graphics are flung across the walls and ceilings. Pool tables in game rooms, basketball courts, and wellness relaxation spaces are a relief and counterpoint to the omnipresent but deftly decentered computer workstations. Who would ever want to go home? Silicon Valley had pioneered an earlier version of the informal workplace, where whizz kids didn't have to grow up and leave the never-never land of adolescence where the thrill of exploration and invention was unsullied by the external, social world. Silicon Alley, the "capital of content," upgraded the informality by adding all the hip features of an urban artist lifestyle.

The Rise of Free Agents

For the New Economy's boosters, these environments are much more than real estate icons, they are the ultimate physical embodiment of all the flexibility talk that has dominated corporate culture for the last twenty years. Indeed, they house Internet industries that sprang directly from the head of the restructured economy of flexible accumulation and which are now pumping fresh, hot air into the recently deflated, digital stock bubble. As numerous commentators have described, this economic restructuring, begun in the mid to late 1970s, eliminated an enormous number of stable, high-wage union jobs, and resulted in the normalizing of low-wage temp work for a large segment of the labor force. The two decades between 1973 and 1993 showed a steady decline in fulltime jobs, and a rise in parttime employment, from 16.6% to 18.8% of the general workforce, almost all of the increase resulting from involuntary contingent work, and most of in temporary-help employment. i In the technically skilled echelons of the new

information industries, a de luxe form of temping emerged as the model pattern of employment, much hyped, and much overrated. Well-paid technicians, engineers, and designers became independent contractors, eschewing benefits, pension packages and other forms of job security for the freedoms offered by contingent work. "Employees without jobs," they moved from company to company, "pollinating" the seeds of innovation, according to the new flexible style of corporate organization.ⁱⁱ

Over the course of the 1990s, this model was much emulated—"consultant" became the fastest growing job description, if not the fastest growing job category—and segued into the phenomenon of the "free agent," in New Economy parlance— a skilled, but flexible worker, with no enduring company loyalties beyond the terms of the contract. The corporate crusade to downsize and shed its permanent workforce seemed to have met its perfect love-match; workers who do not want a regular paycheck or any form of benefits from the companies for which they occasionally work. For the most fortunate, the freelance lifestyle is a heady potion, and their fantasies of autonomy (while still being paid by the Man) are seized on and glorified as a way to sell the profile of flexible labor in general. As a result, projected tallies for these "free agents" are inflated, as many as 33million according to some Internet industry boosters.ⁱⁱⁱ But who are these autonomous agents, and how voluntary is their employment condition?

According to the latest BLS statistics, for 1997, there were 5.6 million workers with contingent jobs (employment not expected to last for more than one additional year), most of whom are young and female, predominantly concentrated in low-wage temping, and 53% of whom would have preferred a job that was permanent. "Workers with alternative arrangements," (numbers that overlap with those of contingent workers) include independent contractors, on-call workers, day laborers, temporary help agency workers, and workers provided by contract firms. The independent contractors (8.2million, and 6.3% of the workforce), are concentrated in managerial, professional, sales occupations, and in the construction and services industries, and are more likely to prefer their employment arrangements than workers in other categories like on-call (2million) and temps (1.1million). Among these 8.2 million are the much heralded knowledge workers, labeled as free agents. Yet, between 1995 and 1997, when the knowledge industries were booming, there was a decline in the number of independent contractors, while all other categories, including those for contingent work were little changed in those same two years.^{iv}

In March 2000, the New York Times Magazine devoted an issue to the "new American Worker." The issue focused on the concept of the free agent as a symptom of the shift away from the "organization man" of postwar corporate culture, where company loyalty was regarded as a long-term two-way contract between employers and white-collar employees. With the replacement of conformity by innovation, and a large permanent workforce by temporary employee pools, a contract labor market is coming into its own, whereby free agents bid for jobs offered by employers on auction websites like Bid4Geeks.com and Monster.com. In the most breathless of these articles, Michael Lewis lumps together all of the categories of "workers with alternative arrangements" to estimate the number of free agents at 12million (out of 131million in the national workforce), and avers that their typical mode of self-presentation usually includes piercing some highly unlikely body part and cultivating an air of total independence. Actually, what these people all were, or appeared to be, were artists. They kept artists hours. They wore artists clothes. They had persevered the sort of odd habits that membership in any group-other than the group "artists"-tends to drum out of people. Maybe the most interesting thing about them was their lack of obvious corporate attachments. Corporations usually paid for their existence, but otherwise seemed to have no effect on their lives. If forced to discuss the companies that paid the bills, these people tended to be dismissive, or at the very least, ironic.^v

In another article, which debunks the romance of the free agent nation, Nina Munk cites a new media marketing consultant who, with her laptop and cell phone, is using an offbeat Greenwich Village cafe, Les Deux Gamin, as her portable office -"It makes me feel like I'm in Paris," she says, "Like Hemingway at Les Deux Magots." Munk points out that more than 60% of these workers earn much less than fulltimers in comparable jobs, and that the lure of liberation from routine work seems to result in people putting in more hours than they would at a regular, comparable job.vi

The Legacy of the Starving Artist

The references by Lewis and Munk to artists and writers are crucial. A large part of the attraction of the free agent profile draws on the appeal to bohemian glamor. What are the consequences of this desire to assume the trappings of the artist? First of all, let us be clear that it is an invitation to underpayment. Artists' traditions of sacrificial labor are governed by the principle of the cultural discount, by which artists and other arts workers accept nonmonetary rewards—the gratification of producing art—as compensation for their work, thereby discounting the cash price of their labor. Indeed, it must be acknowledged that the largest subsidy to the arts has always come from workers themselves. The mythology of the "starving artist" is rooted in the political economy of the creative professions, and the historical legacy of their emergence from the mold of aristocratic patronage.vii

Just as important, however, is the serviceability of the artist's flexible labor. Since flexible specialization was introduced as a leading industrial principle, the number of artists employed in the general labor force (defined in decennial Census data and annual Bureau of Labor Statistics reports as 11 occupations: artists who work with their hands, authors, actors and directors, designers, dancers, architects, photographers, arts teachers, musicians/composers, etc.) has swelled from year to year. According to the NEA's annual summaries of BLS tabulations, this number more than doubled from 1970 to 1990, showing a 81% increase in the course of the 1970s (while artists' real earnings declined by 37%), a 54% increase in the 1980s, a slight decline in the depression of the early 1990s, and a renewal of growth ever since, reaching a peak of 2 million in 1998. In 1997, artists were enjoying a growth rate in employment (at 2.7%) that far outstrips the general workforce (1.3%) and even that of other professional specialists (2.4%).viii

These are impressive numbers, but they do not tell a simple story. To figure in the BLS survey, "one must be working during the survey week and have described that job/work as one of eleven artist occupations." Respondents are asked to describe the job at which "they worked the most number of hours in the survey week." Artists working more hours in other jobs outside the arts are classified as employed in those other occupations. By 1998, these amounted to an additional 330,000, for a total of 2,280,000 artists employed in the workforce.ix Randy Martin points out that these requirements gloss over the verifiable existence of fulltime jobs within that occupational sector: "One works in an occupation, a sector, but has the flexibility to remain unattached. The artist can secure an identity for a day's wage, but the rest of the week remains unsecuritized."x Because of the high degree of self-employment, and because they are most likely to have other jobs to support a creative trade that habitually employs them for only a portion of a workweek, employment and earnings data on cultural workers have always been unreliable. Even in the most highly unionized entertainment guilds, where the majority of members cannot find work on any given day, the dominant employment model is casual employment on a project-by-project basis. Loyalty is to the guild or craft or union, rather than to a single employer.xi

There may be more going on here than the sleight-of-hand interpretation of statistics to paint a rosy picture of job creation in the arts. Whether or not we can verify a

proliferation of new jobs, it is clear that the "mentality" of artists' work is more and more in demand. In respect both to their function and the use of this work mentality, it looks as if artists are steadily being relocated from their traditional position at the social margins of the productive economy and recruited into roles closer to the economic centers of production. Indeed, the traditional profile of the artist as unattached and adaptable to circumstance is surely now coming into its own as the ideal definition of the postindustrial knowledge worker: comfortable in an ever-changing environment that demands creative shifts in communication with different kinds of employers, clients, and partners; attitudinally geared toward work that requires long, and often unsocial, hours; and accustomed, in the sundry exercise of their mental labor, to a contingent, rather than a fixed routine of self-application. A close fit, in other words, with the profile of the free agent.

Net Slaves

In light of this artist profile, let us take a closer look at employment patterns in the New Media industries of New York City. The backbone of the Silicon Alley workforce in the pioneer phase of this new urban industry was staffed by employees— "creative content-providers," or digital manipulators in Web site and software development—who had been trained primarily as artists. Deeply caffeinated 70-hour workweeks without overtime pay are a way of life for Webshop workers on flexible contracts, who invest a massive share of sweat equity in the mostly futile hope that their stock options will pay off. Even the lowliest employee feels like an entrepreneurial investor as a result. In most cases, the stock options turn into pink slips when the company goes belly-up, or, in some cases, employees are fired before their stock options are due to mature. Exploitative manipulation of this mode of employee recruitment and retention (which now extends to as many as 10m U.S. employees) has resulted in several major lawsuits that have rocked the industry. Yet the lure of stock options remains very strong, largely as a result of the publicity showered on the small number of employees who have struck gold in a high-profile IPO.

Only 2.7% of workers in computer and electronics belong to unions (as compared to 56.2% in steel) and Webshop workplaces are entirely nonunionized.^{xii} For several fledgling years, about half of the jobs were filled by contract employees or perma-temps, with no employer-supported health care. With the explosive growth of the last two years, the number of fulltime workers has increased noticeably (by 57% annually). Yet in the most recent industry survey, the expected rate of growth for part-time (30%) and freelance employment (33%) still competes with that for full-time job creation (38%). Evolving patterns of subcontracting in Silicon Alley are not so far removed from those that created offshore back offices for data-processing in the Caribbean, Ireland, and Bangalore, or semiconductor factories in countries that also host the worst sweatshops in the global garment industry.^{xiii} Most revealing, perhaps, is that, in 1997, the average full-time salary (at \$37k), not including stock options, was well below the equivalent in old media industries, like advertising (at \$71k) and television broadcasting (at \$86k). The figures for 1998 are not substantially different.^{xiv}

As noted earlier, the Webshops physically occupy spaces filled by manufacturing sweatshops a century ago. Artists who took over these manufacturing lofts beginning in the 1950s enjoyed wide open floors where work space doubled as living space. This live/work ethos was embraced, to some degree, by the upscale, cultural elites who later consolidated "loft living" as a real estate attraction, and it has been extended now into the funky milieu of the Webshops, where work looks more and more like play. In the most primitive startups, the old sweatshop practice of housing workers in the workplace has also been revived. Bill Lessard and Steve Baldwin, authors of *Net Slaves*, an expose

of industry working conditions, report on this phenomenon: "We were up in Seattle on the book tour, and we visited a friend who's working for a startup that has installed beds in cubicles and is providing three meals a day. As if they were in a U-boat fighting a war! There are companies bragging about this kind of mistreatment!" Lessard and Baldwin sketch a portrait of an industry that benefits from the hagiographical "myth of the 22 year-old codeboy genius subsisting on pizza and soda and going 36 hours at a clip." Employees' quality of life approaches zero as a result, in "the complete absence of a social life, a lousy diet, lack of exercise, chain smoking, repetitive stress disorders, and, last but not least, hemorrhoids.... There's going to be a lot of sick people out there in a few years, and worse, they won't even have any health benefits."xv

All in all, the New Media workplace is a prescient indicator of the near future of no-collar labor, which combines mental skills with new technologies in nontraditional environments. Customized workplaces where the lines between labor and leisure have dissolved: horizontal networking among heroic teams of self-directed workers; the proto-hipster appeal of bohemian dress codes, personal growth, and nonhierarchical surroundings; the vague promise of bounteous rewards from stock options; and employees so complicit with the culture of overwork and burnout that they have developed their own insider brand of sick humor about being "net slaves" i.e. it's actually cool to be exploited so badly. Industrial capitalists used to dream about such a workforce, but their managerial techniques were too rigid to foster it. These days, the new wave management wing of the New Economy worships exactly this kind of decentralized environment, which "liberates" workers by banishing constraints on their creativity, and delivers meaningful and non-alienated labor for a grateful and independently minded workforce.

At a time when this managerial revolution is "liberating" employees, the workplace on the other side of the professional divide is more and more subject to automated forms of Taylorism. Worker monitoring, whether through keyboard strokes, email and voicemail snooping, and surveillance cameras, is now standard practice on the part of the majority of American employers. Among service workers, human relations software is widely used for tracking, job timing, and to introduce speedup, yet the practice is moving into white collar professions. The most infamous example is the regulation of physicians' schedules by Health Management Organizations under the rubric of managed care. Alpha professionals, like doctors, are more and more experiencing a loss of autonomy in the workplace, and are turning to union organizing as a result.

A Volunteer Low-Wage Army

Labor history is full of vicious little time warps, where archaic or long foresworn practices and conceptions of work are reinvented in a fresh context to suit some new economic arrangement. The "sweating" system of farming out work to competing contractors in the nineteenth-century garment industry was once considered an outdated exception to the rule of the integrated factory system. Disdained as a preindustrial relic by the apostles of scientific management, this form of subcontracting is now a basic principle of almost every sector of the postindustrial economy and has emerged as the number one weapon in capital's arsenal of labor cost-cutting and union-busting. Where once the runaway shops were in New Jersey, now they are in Haiti, China, and Vietnam. So, too, the ethos of the autonomous artist, once so fiercely removed from industry's dark satanic mills and from the soiled hand of commerce, has been recouped and revamped as a convenient, even alluring, esprit de corps for contingent work in today's decentralized knowledge factories. Indeed, the "voluntary poverty" of the declasse bohemian artist—an ex-bourgeois descendant, more often than not, of the self-exiled

Romantic poet—may turn out to be an inadvertent forerunner of the discounted labor of the new industrial landscape.

In the academic sector, we find a similar story about sacrificial labor. Indeed, the rapidity with which the low-wage revolution has swept through higher education in the last fifteen years was clearly hastened along by conditions amenable to discounting mental labor. For one thing, the "willingness" of scholars to accept a discounted wage out of "love for their subject" has helped not only to sustain the cheap labor supply but also to magnify its strength and volume.

The most obvious index of the changes in the academic labor force can be found in the rise of parttime employment, for that is where the payroll has been trimmed most dramatically. In 1970, the proportion of parttime faculty stood at 22%. By 1987, parttimers held 38% of faculty appointments, and ten years later, the proportion had risen to 42.5%. In addition, by 1988, the proportion of full-time faculty not on a tenure track, had risen to 20%. xviDepartment of Education. Even among fulltime faculty, the rate of compensation is depressed. Salary levels remain below those of 1971, and the gap between faculty salaries and those of other highly educated professionals has widened considerably. Faculty earned 13.8% less than professionals with a similar education in 1985, a gap that almost doubled by 1997, with faculty earning 24% less.xvii

Employers have long relied on maintaining a reserve army of unemployed to keep wages down in any labor market. Higher education is now in this business with a vengeance. In addition—and this is the significant element—its managers increasingly draw on a volunteer low-wage army. By this I do not mean to suggest that adjunct and parttimer educators eagerly invite their underpayment and lack of benefits or job security. Nor are they inactive in protesting and organizing for their interests. Rather, I choose the term to describe the natural outcome of a training in the habit of embracing non-monetary rewards—mental or creative gratification—as compensation for work. As a result, low compensation for a high workload becomes a rationalized feature of the job, and, in the most perverse extension, is regarded as proof of the worth of the academic vocation—underpayment is the ultimate measure of the selfless and disinterested pursuit of knowledge.

In some respect, the peripatetic regimen of the freeway flyer is germane to the eccentric work schedule of the traditional academic, who commonly observes no clear boundaries between being on and off the job, and for whom there is often little distinction between paid work and free labor. For the professionally active full-timer, this habitual schedule is bad enough. For the part-timer, desperate to retain the prestige of being a college teacher, the identity of being a switched-on, round-the-clock thinker, eager to impart knowledge, and in a position to freely extend her mental labor, feeds into the psychology of casualized work and underpayment. The industrial worker, by comparison, is not beset by such occupational hazards.

Again, what we see is the fabrication of a model "flexible employee" out of the cloth of a customary training in the amateur ideals and irregular routines of mental labor which can be roundly exploited by cost-cutting managers in search of contingent labor. Because of the elective component of this situation, as part of its ceaseless search for ways to induct workers in their own exploitation, capital, it might be said, may have found the makings of a self-justifying, low-wage workforce, at the very heart of the knowledge industries so crucial to its growth and development.

The Mental Price System

My conclusion leaves us with some difficult questions. Are we contributing involuntarily to the problem when we urge youth, in pursuing their career goals, to place principles of public interest or collective political agency or creative expression above the

pursuit of material security? In a labor environment heavily under the sway of neo-liberal business models, is it fair to say that this service ideal invites, if it does not vindicate, the manipulation of inexpensive labor?

Fifteen years ago, this suggestion would have seemed ludicrous. Labor freely offered in the service of some common benefit or mental ideal has always been the informal economic backbone that supports political, cultural and educational activities in the nonprofit or public interest sectors. Selfless labor of this sort is also a source of great pleasure. The world that we value most—the world that is not in thrall to market dictates—would not exist without this kind of volunteer discounted labor. But what happens when some version of this disinterested labor moves, as I have suggested here, from the social margins to core sectors of capital accumulation? When the opportunity to pursue mentally gratifying work becomes a rationale for discounted labor at heart of the key knowledge industries, is it not time to rethink some of our bedrock pedagogical values? Does the new landscape of mental labor demand more than the usual call for modernizing the politics of labor in the age of dot-com and dot-edu (the age of the Yale Corporation, the Microserf, and the consolidated push of Time Warner–Bertelsman–Disney–CNN–Hachette–Paramount–News Corp)?

On the one hand, there are sound reasons for retaining such ideals and traditions. Unpopular forms of intellectual, artistic, and political expression cannot and will not thrive unless they are independent of commercial or bureaucratic dictates. But these conditions of independence can no longer be "defended" stubbornly and solely as a matter of humanistic principle, or as the free-standing right of a civilized society. When capital-intensive industry is concentrated around vast culture trading sectors, when media Goliaths feed off their control of intellectual property, and when the new Vested Interests routinely barter discount wages for creative satisfaction on the job, the expressive traditions of mental labor are no longer ours simply to claim, not when informal versions of them are daily being bought off and refined into high-octane fuel for the next generation of knowledge factories.

Insofar as we participate in this economy as scholars, activists, or artists, there is a responsibility to recognize the cost of our cherished beliefs in political and educational ideals. These ideals come at a price, and managers of the New Economy are taking full advantage of the opportunities that exist for capitalizing on our neglect of that price. Our first challenge, then, could be to assess the special conditions for pricing wages for thought, under which "free time" is systematically converted into un- or undercompensated labor (just as the hidden costs of the unwaged domestic labor of women have had to be acknowledged). Do such special conditions exist, or is pricing subject only to what the market will bear? As socialists, we know that the market does not function as an objective gauge of supply and demand—no more for sweatshop workers in an offshore Free Trade Zone than for CEOs in a tax-free zone of the Fortune 500. Ideas about the value of work and the worth of those who do certain kinds of work play a critical role in the price system, to use Veblen's pet phrase, and they must enter into our economic reckoning. Accordingly, we must remember that knowledge and rules of thumb passed on in a traditional craft are intellectual assets that will be stripped by managers looking for a comparative advantage. It was so in the steel mills where Frederick Taylor worked up his theories of scientific management, and it is little different in the knowledge factories of today.

Some part of the challenge also lies in organizing the unorganized, in this case, those whose professional identity has been based on a sharp indifference to being organized. The sectors I have been describing here draw on an intimate and shared experience of the traditions of sacrificial labor. Yet they are divided by singular craft-like cultures, and by a tangle of class distinctions. Those most in denial (the most secure) will swear off any and every affinity. It will take more than a leap of faith to establish

solidarity among mental labor fractions divided by the legacy of (under-the-table or above-the-salt) privileges passed down over centuries. Nevertheless, while the chief blight of these centuries had been chattel slavery, serfdom, and indentured labor (and we are not done with these), we must now respond to that moment in the soulful lullaby of "Redemption Song" where Bob Marley soberly advises us: "Emancipate yourself from mental slavery."

Notes:

- i - Lawrence Mishel, Jared Bernstein, John Schmitt, *The State of Working America* (Armonk, NY: M.E. Sharpe, 1997), 258-73.
- ii - AnnaLee Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (1994).
- iii - This notorious estimate is the work of Daniel Pink, operator of FreeAgentNation.com, and chief promoter of the concept in the dizzy pages of the industry rag, *Fast Company*. Nina Munk, "The Price of Freedom," *New York Times Magazine*, March 5, 2000, 52.
- iv - Bureau of Labor Statistics, Report on "Contingent and Alternative Employment Arrangements," December 1999.
- v - Michael Lewis, "The Artist in the Gray Flannel Pyjamas," *New York Times Magazine*, March 5, 2000 p. 46.
- vi - Nina Munk, "The Price of Freedom," *Ibid.* p. 54
- vii - For a fuller analysis of this point and others in this essay, see Andrew Ross, "The Mental Labor Problem," *Social Text* (Summer 2000).
- viii - See the NEA Research Division Notes on "Artist Employment in America" <www.arts.endow.gov/pub>.
- ix - NEA Research Division Note #73, April 1999.
- x - Randy Martin, "Beyond Privatization: The Art and Society of Labor, Citizenship, and Consumerism," *Social Text*, 59 (Spring 199), p. 38-39.
- xi - Lois Gary and Ronald Seeber, *Under the Stars: Essays on Labor relations in Arts and Entertainment* (Ithaca: Cornell Univ. Press, 1996, p. 6.
- xii - David Bacon, "Silicon Valley Sweatshops: High-Tech's Dirty Little Secret," *The Nation*, 256, 15 (April 19, 1993), p. 517.
- xiii - Andrew Ross, "Jobs in Cyberspace," in *Real Love: In Pursuit of Cultural Justice* (New York: N YU Press, 1998), pp. 7-34; and "Sweated Labor in Cyberspace," *New Labor Forum*, 4, (Spring 1999), pp. 47-56.
- xiv - Estimates based on annual reports on new media employment, Coopers and Lybrand/Price Waterhouse Cooper. *New York New Media Industry Survey: Opportunities and Challenges of New York's Emerging Cyber-Industry* (New York New Media Association, 1996, 1997 and 1999).
- xv - Bill Lessard and Steve Baldwin, *NetSlaves: True Tales of Working on the Web* (New York: McGraw-Hill, 2000), p. 246. For an active website, see *NetSlaves (Horror Stories of Working on the Web)* at <www.disobey.com/netslaves>.
- xvi - Data are from the 1987 and 1997 National Survey of Postsecondary Faculty (NSOPF) conducted by the National Center for Education Statistics
- xvii - AAUP, *Annual Report on the Economic Status of the Profession 1999-2000*, *Academe*, 86, 2 (March-April 2000).



TOWARD A NEW POLITICAL ECONOMY:

ICT-enabled new locus and forms of social and political actions¹

by Pascal Jollivet²

The aim of this speech is to highlight how the socio-economic Internet "revolution", far from only strengthening standard economics and "perfecting" the so-called capitalist economy (e-commerce as a close incarnation of the "pure market") questions radically both hypothesis and categories of economics, and the actual process of valorization by firms and institutions (Rulanni, 2000). I'll conclude with new locus and forms of political and social actions that are then opened.

The argument is threefold:

1) The affirmation of a directly cooperative networked labour

Concerning economics, the ICT paradigmatic shift is carrying :

- (a) a shift in the affirmation of "non-prescribed" work as the dominant emergent form of work (Bresnahan & alii 2000),
- (b) a shift in the dichotomy between activities of production (in the sense of replication) and innovation,
- (c) as shift in the dichotomy between producer and consumer, between supply and demand,
- (d) a shift in the exclusivity and dichotomy between the market and the hierarchy as the only efficient modes of coordinating the production of wealth (Jollivet, 2000)

Consequently, the production of wealth (among which, the innovations process) appears to be a very diffused and socialized process (Rosenberg 1982, Lundvall 1992), in which the firm is no longer a central and most valuable actor (Corsani, 2000). Invention, as innovation is indeed collective and diffused (Cowan, 2000). But far from being based on the firm, as most of the economics literature still maintains, the process of innovation is based on the social creativity of heterogeneous and multiple individuals (Lazzarato, 2000). The "model" of production of wealth would be then the one of an immediately cooperative and volunteer networked work of social "multitudes".

Theses shifts are currently best incarnated by the cooperative and volunteer networked production and innovations of computer programmers of the GNU-Linux free software phenomenon (Moineau & alii, 2000). Following the four shifts mentioned above:

- (a) the analyst-programmer is simultaneously conceptor and "executant" : he auto-prescribes his work with his analysis of the job to be done,
- (b) the production (as repetition) of the product being done mainly by automatic duplication (via CD-ROM or Internet) the core of his work is to produce the first unit of the software : production and innovation get intertwined,
- (c) most developments of free software are initially meant for the own use of the programmer, making him a producer and a consumer

(d) the coordination of the distributed programming work in free-software is mainly assumed by direct networked cooperation, and not by the hierarchical structure of the firm or by transactions on the market;

2) Is the production of value still inside the firm?

Concerning the "new" economy, the main shift is not so much about e-business, but about the new locus and forms of creation of value, that escape more and more traditional form of controls by firms and institutions (Rulanni, 2000).

In effect, competitive strategies of firms (as Intel, IBM and many others) are more and more targeting the captivation of innovative and positive externalities coming from the cooperative network and social creativity (Albertini, 1997 & 1999, Corsani 2000). One main node of these strategies is the re-appropriation of socially produced knowledge, via intellectual property rights (license, patents ...).

3) ICT-enabled social and political actions

These shifts open doors for (and require) new forms and locus of social and political actions. Because these shifts question radically the market economy and their institution as the optimal regulation form insuring both efficiency and equity.

The software sector shows a good illustration:

- the directly cooperative social networked creativity may prove to be more efficient than the firm proprietary model concerning the innovation process, as in the software sector with the GNU-Linux phenomenon (Miller & alli, 2000; Raymond 1998)
- but in the actual institutional arrangement, the equity principal is not verified : the community of cooperative hackers developing innovations are not paid for their work, when firms do receive retribution.

More generally, since innovation is much socialized and diffuse, since externalities are major phenomenon (Moulier-Boutang, 1996) and may generate increasing returns (Increasing Return of Adoption, or of Innovative Usages), the equity criteria, through the allocation of resources, is less than ever insured in the current institutional regime.

The recent social and political movement of parents and teachers in France, that forced the French Minister of Education and Science to resign, and induced the changing of the government team, shows some aspects of the new modes and locus of social actions that the ICT and Internet may enable⁴ (Miel & alii, 2000). Two socio-technical features are here to be highlighted:

- Internet eased a social and political movement "from the bottom"⁵ : the email (effectively accessible from home in France by more than 60% of the population due to the Minitel telematic bridge) coupled with diffusion lists and ad hoc local web sites, enabled the expression and the capitalization of personal and contextual experiences and propositions⁶;
- Internet eased the auto-organization and coordination, even at a national wide level, of distributed local actions : this social movement, actually risked at a time, for the purpose of negotiating with government representatives, to be canalized and subsumed by institutional unions. But these happened to have different timing and goals than strikers, because some were close to the government, and elections were coming soon.

Therefore, Internet eased the direct, horizontal and "network" coordination and cooperation of strikers, bypassing when needed "centralized" workers unions.

Two other social features of this movement are to be mentioned :

- the movement was far from being "corporatist" : it was as much a movement of parents', as a one of teachers. These parents were highly active, being concerned about the effectiveness of the "social elevator" role of the educative system, questioned, among else, by the ongoing increase of the number of students by class.
- this concern about social climbing was particularly developed by those parents, since a lot of them happened to be unemployed, and coming from a non-favored "socio-professional category"⁷.

As volunteer programmers on Internet, the so-called "unemployed", with their involvement in social life, do also participate to the social production of wealth, without being really paid for it.

This analysis finds echoes with concrete actions and claims of movements such as ATTAC and AC Agir Ensemble Contre le Chômage : the "new economy" calls for new political economics and policies, such as the settling of the an unconditional "citizenship income" and tax reforms (Aglietta, 2000), possibly financed by an "Tobin Tax" on financial or e-business transactions.

Even though we argue that ICT opens doors for new locus and forms of social and political actions, this analysis should not being interpreted as a determinism of technique on social changes. Technology and technical objects are a matter of socio-technical networks and evolutions (Callon & Latour, 1989 & 1991) even though some radical innovation, as the emergence of the Personal Computer in the 70th, seem to be much more the result of social innovations than technical ones (Breton, 1990, Stallman, 1999).

Notes:

1 - Written transcription, by the speaker, of the communication at Tulipomania DotCom, Amsterdam June 2000.

2 - Member of the editorial board of the review *Multitudes*³, France
Associate Professor in Economics at the Université de Technologie de Compiègne (UTC), France; researcher in Costech (UTC) and Matisse (Université de Paris 1 Panthéon-Sorbonne), pascal.jollivet@utc.fr

3 - Web site : <http://www.samizdat.net/multitudes>

4 - The case of the (successful) first "e-strike", in France, in a high-tech French company, leader in the software games market (UbiSoft) (Papathéodorou, 1999), is also very relevant of IT-enabled social and political actions.

5 - Approximate translation of "mouvement politique par le bas"

6 - Dozens of Web sites, very frequented, and mostly local, with chats and diffusion lists, appeared during the movement of the teachers-parents, from their own initiative.

7 - It is interesting to highlight that this "activism" and involvement of unemployed individuals in a social movement may be linked to the fact that there were not completely socially marginalized, since they had some forms of social benefits. In this perspective, the also unusual active participation of employed parents to strikes (rallies, occupations ...) may also be connected with the increase of "free time" induced by the recent decrease of legal work time in France (down to 35 hours a week).

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BLUEPRINT FOR TOYWAR II

From Net Criticism to a Politics of Code - Theses on Network Economics and Network Politics

by Reinhold Grether

In memory of Benno Ohnesorg who was killed on this day 33 years ago during an Anti-Shah-Demonstration in Berlin.

Kung Fu and Cheng Ho

Around 1400, no region of the world could measure up to China. Since the eleventh century, all fertile lands were linked by a huge network of canals. Paper money accelerated the exchange of commodities, printing with movable type accelerated the transfer of knowledge. Gun powder and cannons had defeated the Mongols and secured the caravan routes to Russia and the Middle East. However, the new medium was fresh water – even more so, salt water. Private and public fleets competed over trade in the canals, on the coast and over the Indian and Pacific Oceans to Africa and Japan. The navigation instrument of the seas, the magnetic compass, is a Chinese invention, it is conceivable that the official fleets of Cheng Ho could have "discovered" the Portuguese natives on the Southwest tip of Europe. But within a few years, the Confucian bureaucracy let the routes of the new medium silt up, and in 1436 even forbade the construction of sea-worthy ships. The Chinese spent the next 564 years around their canals, and they are still waiting today for entry into the World Trade Organization.

Professionalization of Sects

Imagine an infinite regress, leaving behind world, body, and the ego (das Ich). In a purely mental process, the empty reception faculties experiences itself as pure medium. Adepts from all around the world have created this condition of luminous self-medialization, and interpreters from all cultures have semanticized "notions" (Einfaele) of transcendence into the conventional world to every form of belief system. Western philosophers theorized this pneumatic process as a reflectio of eternal ideas, and the bearer of this reflective knowledge stretches from the ancient theoria through the medieval artes liberales to the modern humanities. In contrast, if we isolate a technological process in a black box, we are using a totally different form of knowledge. At issue here is a applicable, control knowledge, intent on obtaining from a process the most efficiently produced output possible. Here, the Western lines of tradition lead from the ancient techne through the medieval artes mechanicae to the modern engineering sciences. The object-oriented programming of computer science, in my opinion, professionalizes a third form of knowledge, which I term "network knowledge" (Netzwissen). Again, this begins with an encapsulation. The informatized "object" is encapsulated as a module. This is still all quite similar to the industrial black box. But the object would merely be a meaningless component on its own if it could not by definition communicate with other objects. A system of objects is structurally a communication network, the conditions of which are always in fluctuation. Object-oriented software is nothing but the "self-descriptive

language" of the network knowledge implemented in it.

Clash of Codes

1. In all human societies, there are three forms of knowledge: reflection knowledge, application knowledge, and network knowledge. 2. In all human societies, there are clashes of codes between the forms of knowledge and their representatives. 3. With the technological media, network knowledge is undergoing a tremendous burst of professionalization. 4. Beside reflection science and application science, network science (Netzwissenschaft) will establish itself as a third pillar of science. 5. Modularization creates degrees of freedom. 6. The communicability of objects will become increasingly intelligent. 7. The controlling powers find themselves strategically in the defensive. 8. The controlling powers must operate in codes of network knowledge. 9. All codes are beautiful, because they increase complexity. 10. The essence of the Net is flow, and in its disjointed character cannot be controlled. 11. The happy Chinese: a second 1436 will not take place.

Informational Cultivation

Information emerges as a local event in a narrow personal context. Fixed as a freely duplicable sequence of bits, the now mobile information loses its local horizon of understanding and reaches in a process of all world wide personal environments, which can use the information; this process has no monetary value and is temporally successive. Structurally speaking, information is not a good of scarcity, but a good of abundance, and there are essentially only three strategies to impose a fictional scarcity onto information. First: one can make the transmission channels scarce, and thus secure a transaction premium (Maut). This is precisely what is done by the current domain name system, which only makes a tiny spectrum of the in principle limitless space of addresses available, and thus cultivable. Second: individualize information, and thus create a positional surplus value which makes the free good tradable in the market sense (the formation of brands). If one imposes a lexicon of domain names on the asemantic field of numbers in the IP-address space, then all social differences which this lexicon contains are capitalized to become to positional goods with a monetary value. The first information transfer which here takes place is that of the social distribution of the power structure itself. Third, the abundant good information takes on commodity form through strategies for the informational production of surplus value. If one for example reconstructs the semantic environment where information makes sense, or if one develops a scenario of application options, or if one shortens the time interval required until the information reaches an interested customer, or if one translates it into another language, one adds to the information a monetizable informational surplus value. The DNS System can take credit for the fact that in relation to the IP-System it accelerates and simplifies search and bookmarking operations, and thus creates an informational surplus value. If information must be first produced, the theory of property rights, which predicts a more steep path of knowledge production for private rights of use, and open source theory, which expects comparative development advantages through prestige-driven cooperation chains, given open competition. An optimal information production and distribution, which both produces information and distributes it rapidly, can probably only be achieved in a hybrid mix – which must constantly be renegotiated – of property rights and open source, and from partial information cultivation with largely free information access. General solutions here arouse the most doubt.

Research Agenda

1) The principle of counter-differentiation formed an enormous drive for European development. In this model, two irreducible antagonists are sent out to compete in expenditures – for example, pope and emperor – and both attempt to achieve hegemony by stimulating, evolving, and outdoing the resources of their counterparts. This leads at first to remarkable increases in internal differentiation on both sides, and at some point to a shared collapse, which allows those sailing along on board, protected from the wind – for example mercantile territorial states – to then set full sail. Instead of now require from the Internet economic theory a decision between market economy and gift economy, perhaps it is more productive to first play out the model of counter differentiation and to thematize the complex interplay of market and gift economy.

2) I consider the fact that highly developed societies, down into the upper margins of the lower classes, are pumping gigantic sums of money into high risk sectors like the Internet economy, to be a burst of vitality, regardless of any stock market crash, comparable to tattooing and piercing; it burns the ships it leaves behind, in order to then break out into the unknown. For just that reason, it would be good to know exactly where the money has ended up. We need to study the actual property and power relations in the Net. How much actually flows into the evolution of net technology, content and social structures? How much is spent consumeristically on the sweet trip of the dolcefarniente to bankruptcy? And how much is being skimmed off the top of the bubble economy, without having seen anything of the Net besides financial transfers?

3) Since the end of the 1960s, economists outdo one another with arguments about why national economies suffer a loss of prosperity due to inflationary tendencies. By now, every television viewer jumps at the word inflation. The high flights of the exchanges are however universally praised in the most glowing terms. The million dollar prize question is then why moderate inflation for consumer goods is an evil, but a galloping inflation on the stock markets a blessing?

4) We now need to separate the dotcom from the Net economy, and to study both separately. I see most of the dotcom economy as nothing else but a transfer of the paradigm of process control from the industrial age to the Net, in many cases doomed to failure. These are businesses with vision, corporate identity and business plan. None of this functions in the Net. Net economy is pure fluxus, micro-networking, modularization of the smallest units, work in parallel worlds. Following emerging paths, delete everything else. Fluid borders, fluid knowledge. Multilogic instead of monologic.

Don't be afraid of dotcoms.

In the 1950s, in the factories of the Northern Italian automobile industry, small groups of worker radicality formed which distinguished themselves from the traditional union and party representation with the term "operaismo." The basic idea of operaismo was to attack the capitalist production of surplus value at the center of the capitalist production process, and thus to block the capitalist dynamic of development. In order to do this, the entire production logistic of the automobile industry, across divisions and factories, was reconstructed, all by hand and without the help of a single computer. In the end, all neuralgic points of the entire matrix of value production were known, so that a counter matrix of absenteeism, blockades of deliveries and surprise strikes in the shortest period

of time brought the entire automobile industry to a standstill. The trick was to bring a more powerful enemy to the mat without expense.

EToys ran into a similar trap. After going public on May 20, 1999, it could barely walk, weighted down by all its financial muscle. In June, they began dealing with etoy, the first offer was \$30,000 – answer a smiley – in order to get rid of the annoying domain neighbors once and for all . When etoy refused higher offers, they played the only trump card they had, to bury etoy in an avalanche of legal costs – and disappeared until the end of the campaign from the radar screen. As a typical dotcompany lost in the Net, it was stuck in the circle of their business-plan economic monologic, and found no way to counter the possibilities of the Net which were breaking down on top of their heads. To refresh your memory: legally speaking, this was a disagreement about brand names. In the course of the legal battle, eToys' argumentation crumbled more and more. They even risked losing their legal claim on the trademark to etoy.

On the business level, in direct contact with the opponent, etoy by no means limited itself to defending their domain. etoy even offered a merger, where they would have brought their own

domain into the merged company. This kind of business logic confused the enemy as much as the gearing of the campaign to totally annihilate the stock value of eToys, which I developed and set up, together with RTMark . I have extensively described the motives for this strategy in "Telepolis," and therefore will here only give the pure numbers. When I threw out the suggestion to the lists, eToys stood at \$55, when etoy was back on the Net at \$13.75: this means a loss in stock value loss of \$4.97 billion dollars. Stock market insiders attribute the loss in part to the campaign. In terms of the campaign, it is even more interesting how a seemingly decisive strategy element occupied minds on both sides. A direct shock to customer relations, which eToys can only build up on its web page, was threatened by a virtual sit-in; on the 10 days before Christmas, for five 15 minute periods, campaign participants called up the web page of the web server of eToys in masses, and sent it spinning. Shortly afterwards, a chain of 700 avatars formed on the Toywar platform, one more ready for battle than the next, and no one knew what they were plotting. Soon, there were 3 toy warriors for every eToys employee. To top it all off, a constant stream of protest mails, and a media campaign which spun faster and faster until it reached the peaks of the world press. Web campaigns are won by those who tax the time and fantasy of the management to an unimaginable extent.

What isn't code, isn't real.

A world cultural medium shaped by hundreds of millions of people needs other rules than an Internet for a few ten thousand military officers, scientists and computer freaks. First, because the cultural bearers of past epochs, modeled for reflection and control, legally attack the openness, freedom and transparency of implemented net architectures with their claims on copyright, patent, brand and liability and try to recode their ideological and mercantile interests accordingly. Second, the regulations governing of bourgeois collective life like anonymity, crypto, privacy, and security need new regulations. Third, because the incompatibilities between transnational attempts at regulation, national legal systems, and the system of developing rules are dramatically growing, this opens for some a nostalgia for the good old days of the pioneer years, for others, areas for action for a progressive politics of the code, and for still others hopes for a "contrat digital" of all netizens towards constructing a global net democracy.

Areas of action for a progressive politics of the code

In conclusion, a short sketch of possible areas for action, which – like dotcoms and the rest of us – must answer the following questions: what is to be networked? Why? Which kinds of network knowledge will be professionalized? Is the Internet making progress as a world culture medium? Are new chances opening up for the production of world cultural capital?

- 1.) ICANN. ICANN stands for a total control of the Internet by the US government and for an artificial limitation of domain names. ICANN is to take over the management of the A-Root Server and become the highest regulatory authority of the Internet. For this, there needs to be a double strategy: a relentless delegitimization from outside and a massive democratization movement from the inside. On the one hand, implementing new top level domains throughout the entire existing system, on the other hand obtaining ICANN membership and offering a progressive politics from the inside.
- 2) Directing development policies towards financing wireless broadband networks for developing regions.
- 3) A world-wide campaign towards introducing Open Source in international organizations, governments, administrative units, firm networks and schools.
- 4) Globalization of the multiplicity of languages. 90% of Net intelligence falls through the cracks due to the forced use of English. The Anglocrats are just the other side of the virtual class.
- 5) The development of peer-to-peer architectures. Peer-to-peer means that users give free access to files from their hard drive to the Net without a server between them. The future belongs to Open Source projects like Freenet, especially if they export all file formats, encrypt all files and make all computers anonymous.
- 6) Calling in old protocol promises. Further development of the WWW towards a multiplicity of versions on user-alterable web pages (editable documents) and towards free linking in existing web pages (reversible links).
- 7) The establishment of browserless networks as a further development of Netomat.
- 8) Technification of the Internet culture. Mailing lists embody the ideology of the status quo. They can be transformed into real cooperation platforms, so that multiple working groups can work on parallel projects. Mailing list archives gain in value, if the contributions are constantly re-linked with one another. Blaster technology can do this: it automatically links references to topics.
- 9) The construction of technical, media, and social infrastructures of virtual protest. In this direction, Alvar Freude, a co-author of the "association blaster", as a semester project for Olia Lialina's "Active Link"" seminar at the Merz Academy in Stuttgart, is developing a "virtual demonstration network" which can be used for virtual sit-ins. Parallel to this, an accompanying group of lawyers, political scientists, and journalists has formed, which will bring the discussion on the legitimacy and legality of net-activism to the public.

(This text was written as a discussion paper for the Tulipomania Dotcom-Conference in Amsterdam and Frankfurt. The political part of the paper owes a great deal to the net politics debate in the mailing list "rohrpost". Much of my thinking on this owes a great deal to Dirk Schroeder. Brian Currid provided in no time the excellent English translation.)

Benno Ohnesorg

http://www.hdg.de/lemo/objekte/pict/KontinuitaetUndWandel_photoTodBennoOhnesorg/index.html

Code and other Laws of Cyberspace

<http://code-is-law.org/>

ICANN

<http://www.icann.org/>

Freenet

<http://freenet.sourceforge.net/>

Netomat

<http://www.netomat.net/>

Alvar Freude

<http://student.merz-akademie.de/user/alvar.freude/>

Assoziations-Blaster

<http://www.assoziations-blaster.de/prixars/>

rohrpost

<http://www.mikro.org/rohrpost/>

Reinhold Grether

How the Etoy Campaign Was Won

<http://www.heise.de/tp/english/inhalt/te/5843/1.html>

Reinhold Grether

Durchbruch zum Weltcode

<http://www.heise.de/tp/deutsch/inhalt/sa/8090/1.html>

Reinhold Grether

Von der Netzkritik zur Politik des Code

<http://www.heise.de/tp/deutsch/inhalt/co/8212/1.html>



THE DOT-COM ECONOMY:

An Economy with no mediation?

by Korinna Patelis

"Existing laws and regulations that may hinder electronic commerce should be reviewed and revised or eliminated to reflect the needs of the new electronic age."

The dot-com economy is presented to us via the powerful marriage of two distinct messianic approaches: digital determinism as presented by a belief in the Internet and market determinism as presented belief in the free market. It is clear to any radical scholar that the protagonists of this marriage are conceptually bankrupt in that both the Market and the Internet refer to relatively abstract entities which lack agency. Consequently believing that they will alone change state-capitalism is pure metaphysics. Their synergy however has achieved the unthought of: a belief that financial processes are in the process of radically democratisation, in the words of Red Herring: "Everybody wants to be a VC."

In this article the marriage in question is situated within a larger hyped ideology which accompanied the development of the Internet in the West, that sees in the Internet the panacea for society. The dot-com economy and the "bubble" it has produced will be understood as a part of such hegemonic approach. to the changes the Internet impregnates. Such an approach essentially frames debate about the Internet,

marginalising any approach that does not subscribe to the rosy technological deterministic view of our inevitable free market future. Even though we think we are not free-marketers and that we are well aware of the technotopia involved in the promises in question, these are carefully constructed.

To give an example: it is a common view that the dot-com economy is now our past and radical critics must complete the task of assessing its grave consequences. The dot-com economy is not past (the Internet is still the "future" for most countries in the world). It is therefore important to understand its ideological and real foundations. This in order to initiate actions that resist its rise in countries or markets that are not yet fully connected. Similar comments can be made with regard to the current backlash which criticises the "bubble" produced. This backlash makes concessions to radical criticisms that would have been unthought of 10 years ago. The most obvious of these is that nobody seems to be really criticising the symbiosis of e-communication and e-commerce on-line. Starting from the view that the dot-com economy was unable to do so is the redundancy of regulation in the sphere of electronic communications, this article will attempt to introduce a parameter of the Internet economy and its communications that is largely excluded from debate: intermediation. The introduction of this issue is important because it highlights the shortcomings of debating the Internet economy in some free-market economic vacuum. What is essentially wrong in the way the debate has been framed is that although the Internet seems to be a medium characterised by hypermediation, the dot-com economy is being debated upon as if intermediation and if I may add, any form of communication is irrelevant to the dot-com economy. What is being erased is a radical understanding of communications markets as qualitatively different from "other" markets. This article will provide powerful arguments according to which this is misleading.

The production of the unmediated dot-com market

The Internet-philic framework that has been set by government and NGO initiatives has put forth the current hegemonic take on regulation, a take which constitutes a strong deregulatory force giving license for the uncritical introduction of e-commerce in the sphere of communication literally threatening to wipe out Western Europe's entire communication tradition in the name of technological change. Such hegemonic take on regulation, which can not be exhausted here, is blind to mediation. It builds on a myth of an unmediated on-line experience. According to such take the Internet is a new medium whose technology disables regulation and whose nature resembles the free market to such an extent that any regulation could harm its core functions.

Three central tenants form this hegemonic take: anti-statism, digital determinism, and market determinism. The documents in which these are expressed are numerous (Poster 1995, Browning 1996, 1998, Kline & Burstein 1996, Chapman 1995, Gidary 1996, Barlow 1996, Heileman 1996, Steele 1996, Economist 1997a, Negroponete 1996, Economist 1996b, Volkmer 1996, Kahin 1997, Abrams 1997, Johnson & Post 1997, Rapp 1997, Abraham 1997, Froomkin 1997, Neuman, Mc Knight & Solomon 1997). According to the anti-statist component the "virtual" can not be in the legislative tyranny of the real. This means that real government is redundant in the virtual world..

Consequently regulatory issues instead of being considered as having been already addressed by existing laws, are considered pending for the newly established polity to decide. Moreover the nature of governance in the virtual world is dictated by the essential technological characteristics of the Internet, these demand a new form of regulation. At the heart of such digital determinism lies the theme of change, the idea that what we are experiencing is new, the idea that technology has caused a rupture with the past and that

consequently we are inevitably moving on to new financial era, whose features are dramatically different than those of the past, whose qualities and functions we can not comprehend with past methods of analysis. The basic qualities injected by digital technology to any financial environment are novelty and dynamism. Dynamism destroys power and guarantees automatic democratisation.

The idea that digital technology has essential qualities hints to the naturalism embedded in the hegemonic take in question. Digital technology is perceived as having natural laws of its own, like a species. Negroponte talks about the DNA of digital information, Levinson wrote a book on software evolution, Dyson talks about Darwinism and memes. The Internet is hence constructed as a autonomous self regulating mutating entity, one that improves through its natural evolution, the underlying notion being that the Internet like a biological organism, will automatically move forward and perfect; interfering consequently with its operations can prove harmful. Now there is an interesting way in which this naturalism sustains a third anti-regulatory tenant-central for understanding the dot-com economy-market determinism. By market determinism one refers to the very popular contention that the Internet gives rise to a economy based on abundance rather than scarcity. An economy in which demand and consumers set the prices and drive markets. and supply and demand are equal, prices are thus set at the lowest optimum level; oligopolies are avoided due to low market entry costs; market dysfunctions are history, and diversity is guaranteed The dot-com economy is constructed as inherently dynamic, technology abolishing economies of scale and scope and competitive advantage, price on the Net equals marginal willingness to pay; instead of scarcity of supply the dot-com economy exhibits a scarcity of demand. In the words of Bill Gates: Capitalism, demonstrably the greatest of the constructed economic systems, has in the past decade clearly proved its advantages over the alternative systems. As the Internet evolves into its broadband, global interactive network, those advantages will be magnified. Product and service providers will see what buyers want a lot more efficiently than ever before and consumers will buy more efficiently. I think Adam Smith would be pleased.

Now though naturalism does not characterise the work of B. Gates favourite classical liberal economist Adam Smith, it does characterises the work of leading neo-liberal economists such as Hayek (Ioannidis 1991) the Market is constructed as an autonomous self regulating entity, moving towards perfection, in that it automatically restores its imperfections, mutating through time. The similarity between the Internet as a natural entity and the Market as a natural phenomenon has been skilfully employed by Internet-philic market determinists to prove a natural association between the Market and the Internet. The entire dot-com economy is based on this association. The two entities are portrayed as essentially similar, intrinsically bound, same in nature and behaviour. This of course functions to strengthen the two naturalism's question. We are caught in this ever increasing naturalist viscous circle Kahin typifies this when he writes: Then again, the market itself has never moved this fast. Within a growing investment community, the Internet is seen not only as the once and future NII, but as a vast frontier for innovation and enterprise. It is at once physical, logical and institutional , an organic mesh of unfathomable richness and vitality. It bears an eerie resemblance to the marketplace itself-which, with the coming of the electronic commerce, promises to electrify in a reciprocal embrace (Kahin 1997: 184).

The anti-statism, market determinism and digital determinism all support the current hegemonic approach to regulation this is that the Internet, an essentially different medium, requires an essentially different paradigm of thinking about regulation because its globalising and democratising qualities are inherently different, dynamic, fast and

uncontrollable (Clinton Administration 1993, 1995, 1997, Clinton 1992, 1998, Gore, 1993, 1994, 1994a, Bangemann 1997, Bangemann 1997a, KPMG 1996 Papas 1997:5 CEC 1994:8,15, CEC 1997). Its technology dictates the new regulatory paradigm. And of course this paradigm should be one that accepts that regulators are powerless when confronted with the global nature of this medium and also that tampering with its natural evolution would have disastrous results in its development, and finally trying to comprehend it with old tool for investigation is useless. Left alone the Internet could deliver the perfect market . This new paradigm also shuts off any regulatory approach that defines technology as a public good to be driven not by its natural dynamic but by policy makers. It demands the uncritical introduction of Electronic Commerce in Internet related legislation. If the Net acts as a democratise why should its benefits be restricted to communication. Why not exchange goods as well as commodities? As a result the Internet is defined as delivery platform rather than a communications medium. Ironically enough the definition of the Internet as something more than a communications medium is used as a argument for the further deregulation of communication industries, the argument being if the Internet facilitates the exchange of more than one product then a liberalised environment being more flexible can better accommodate this technologies needs. Orchestrating this hegemonic approach in contemporary policy making is convergence.

It is almost religiously put forth that convergence makes regulation as we know it redundant and that speaking of regulation in a converging world is impossible. Hence convergence provides the alibi for anti-statism and deregulation. What is put forth is that telecommunications, whose regulation is now liberalised and broadcasting whose regulation is more strict, are converging; it is thus not technologically sound or efficient to have two regulatory paradigms for what is increasingly becoming one technology. The viable solution to this problem is to abolish one of the two regulatory paradigms. The regulatory paradigm to be abolished has to be broadcasting since it was designed to meet goals of a nation-state era which is now past. This means that the broadcasting paradigm, in which intervention for the purpose of preserving a democratic system of government remains an important question, should be subsumed or abolished altogether giving way to the telecom paradigm which being liberalised can accommodate the rapidly changing digital era. The position put forth is that there is a natural association between a deregulated policy framework and converging technologies. A deregulated environment free of government bureaucracy, national state financial borders and cultural protectionist tariffs is more flexible and hence can react better to constant change evoked by digital technology.

Mediation and the dot-com economy

Within the above described paradigm the Dot-com economy is perceived of as an economy with no structures. It is presented to us resembling an unproblematic picture of an Internet without heavy regulation, A diaphanous direct market composed by sovereign individuals.. A world without mediation, since in financial terms mediators destroy the free market processes. On a purely abstract level proving the possibility of ever achieving such a state of affairs would entail refuting powerful arguments from the philosophy of language which establish that language and perception are socially conditioned and thus individual desire or autonomy is always compromised. Furthermore the Marxist objections to the idea that man can be distinguished from society and can be sovereign. Lack of any real reflection or refutation of these arguments proves what has been pointed out by radical scholars since the early 90's: that the hype around the Internet was nothing but technological determinism employed to resurrect a set of normative claims. Unfortunately

the texts in question did not reach most small time investors and they clearly failed to distinguish between the two.

Leaving such abstract discussions aside, the above paradigm lies in sharp contrast to the patterns of rising hypermediation on-line. This is a harsh economic reality: there are gatekeepers in the on-line world. Furthermore there is a distribution chain which does distort the market process. The Internet is a communication space in which the power of private intermediators is rising. The dot-com economy, an economy characterised by commercial joyriding is essentially the result. By intermediators one refers to any entity which mediates the on-line experience. This includes: software and navigational tools. ISP's which defined as common carriers, exercise control via their promise to structure the online experience, to morph the Web, an intention made clear in their marketing and advertising campaigns. Furthermore search engines. Finally portal sites. Portal sites are a perfect example of poor commercial practice which is distorting any self regulatory function of the dot-com economy.

The analysis below shows why outlining arguments that could be made against other intermediators. The myth of the Internet as a chaotic landscape is the ultimate marketing tool, for it allows big companies to present themselves as performing a twofold indispensable function in the online world: structuring and customisation. Within this populist marketing for portal sites has established that portals provide a vital service that is towards the users benefit. They provide users with the mediation that is necessary for the Internet to function at all, as a Forrester researcher mentioned when he was asked whether portals will dominate the Internet "the portal simply aggregates features and information for users in one convenient place. The issue is function, not domination (Forrester 1998:1). But in reality it is clear that portals customise content and categorise Web pages. Such customisation is not for the users benefit but for the companies benefit. They direct attention, aggregating traffic and give the illusion of customisation. These are vital functions for the further commercialisation of the Internet. The legitimisation of such uncountable mediation comes from the promise that the on-line experience is customised. If the power of customisation is led by the customer who cares if it is mediated by the portal.

Despite promises there are six important problems with their functioning:

1. Absence of a set of open, coherent goals Although intermediaries portals have been institutionalised, there is a fundamental lack of a coherent set of functions that they supposedly perform. In general there is no set of rules, no mission statement, and no code of practice that gives a concrete description of what portals offer consumers. However, here a distinction has to be made between portal sites, since AOL in the US, MSN.com and Geocities are possible exceptions. Geocities offers a rather concrete mission statement, according to which the portal strives to " maintain an ongoing balance between commercial viability, and an editorial philosophy that encourages creativity and freedom of expression" With the exception of the above, in those sites that do offer some description of what they offer, the description remains rather vague. Yahoo's description is the most specific, stating that Yahoo offers "a network of branded Web programming the first on-line navigation guide. Targeted resources and communication services for a broad range of audiences " (Yahoo 1998:2). However, Lycos, which enjoys a 40 per cent consumer reach as an Internet hub, offers the following distinction between "portal" and "hub": "By evolving from a portal, which implies a doorway that users pass through on their way to other destination, to a hub, Lycos is able to serve all of the basic needs of its Internet visitor. Acting as the home base and primary Web recourse for its users". (Lycos

1999) The lack of a coherent set of goals goes hand in hand with an illegitimate code of practice, which is a general reluctance and denial to take assume any responsibility for the services offered. This can be divided into two problematic areas: the disavowal of responsibility and the failure to protect users.

2. Disavowing responsibility for content The sites in question explicitly disclaim any responsibility for the accuracy or correctness or reliability of the content contained in the site, or of information about other sites. This is stated together with other disclaimers concerning the accuracy of information obtained through advertisements etc., all contained in the Terms of Service agreements. The agreements are only presented to the user if requested, so not all users are aware of the fact that portals are not legally or in any other way bound to provide error-free information A typical example is the Excite Terms of Service, which state that the user should not assume that Excite Inc.'s service will meet any user's requirement to "be uninterrupted, timely , secure or error free". The same applies for Lycos: "The Lycos catalogue of the Internet catalogue, and as such, Lycos Inc. explicitly disclaims any responsibility or the accuracy, content, or availability of the Information content. There is a general position put forward in the Terms of Service that portal sites are not content provision sites and, as such, they cannot make guarantees about their content. According to their perception, it is not content that is on offer, but a general guide to Web resources.

3. Terms of Service that do not protect the user "You should not assume that aol.co.uk or its content is error-free or that it will be suitable for the particular purpose that you have in mind when using it. AOL may in its sole discretion and at any time modify or discontinue aol.co.uk; limit, terminate or suspend your use of or access to aol.co.uk and /or make changes to these Terms of Use" The above clause from the AOL Terms of Service is typical of all 8 portals examined. All portal sites reserve the right to discontinue service of a user's membership without prior notice; they also reserve the right to change the Terms of Service without prior notice . The important question here is whether such terms of service should be compared with broadcasting, where they would be illegitimate, or phone companies, where such practices would be problematic, but not to the same extent. What is also important is that such terms of service are not automatically given to users if they are not actively subscribing to or using a personalization service. Furthermore, their nature implies that portal sites do not need to be accountable for their operation in a non-financial fashion; that is, that portals are accountable as financial entities to consumers.

In short, Terms of Service of portal companies do not accept that the service offered is not operational, i.e. that it is essentially content, and when they do, they do not view such content as possibly value-laden, and thus refuse any responsibility for such content. This is a total disavowal of the cultural role performed by portal sites. There are cases in which the illegitimacy of such a disavowal becomes more apparent. For instance, in the case of GEOCITIES, a network of people on the Web umbrella undergone company, the Terms of Service/content guidelines state that nudity is not allowed in GEOCITIES. To justify this decision, the company states: "our guidelines have been carefully crafted to maintain standards consistent with popular opinion of the Internet community and the societies of the world at large which include not allowing nudity or pornography". Now such statement is inaccurate, since pornographic material provides a primary income on the Web, demonstrated by the fact that 'sex' is the number one search word (Search Net 1999) It does, however, betray the very distinctive flavour of GEOCITIES as a place in cyberspace. GEOCITIES is not merely a platform, it is a platform with an anti-pornographic bias (Geocities 1999)

4. Accountability and authorship To sustain the notion of neutrality and functionality of structuration, sites brand their content, but are careful to distinguish such branding from authorship. The site or its pages are considered subject to copyright, but they are not considered to be value-laden or subjective in any way. Thus, they do not have an author. Each service/content/category offered does not have an editor, and no structuration or selection of Web material is authored. This is, of course, normal, since commercial transactions determine much of the material featured. The off-line equivalent would be watching an entire Channel's programming without anybody claiming responsibility for it. It is in order to purvey this notion that portal sites are neutral gateways to the Web, that portal sites do not assume any responsibility or authorship for the content featured. Authorship stands for subjective perspective, it is a synonym for personal, and thus the opposite of impersonal and objective. If content was authored, then it could not possibly be transparent. Web portal companies do realise, of course, that the inverse - that is, if something is not authored it is transparent - is not true. Of course, when authored, authorship is understood with reference to a particular text, which fails to acknowledge the idea that a Web page is much more than the text on it. This blindness to authorship is one step further on from the practice of claiming no responsibility for the accuracy or truthfulness of content, as described above. It is not only saying "no responsibility", it is saying "I did not write it". It leads to the complete disavowal of the notion that portals are in any sense "content providers". This refusal to claim authorship for the on-line experience aims to rid companies of any notion of accountability for it. If we were to ask: "who is responsible for the on-line experience?", the populist answer is "the user. A simple example would be that of Yahoo! news. Yahoo news's "help" contains an important disclaimer, in so far as it states that: "Yahoo! does not write or edit any of the news on our sites. If you have comment about the tone, angle or accuracy or coverage of a story please address them to the news provider directly" A few lines above, it says "Associated Press and Reuters provide news in almost all categories and they represent the majority of our daily story volume" (Yahoo 1999) Here I wish to raise two sets of objections to such practices. Firstly, by saying that Yahoo! does not author the news in the Yahoo! site, Yahoo! assumes that this is the only type of authorship, and that that the site is merely the text, or the article. This is the off-line equivalent of saying the same story, whether it appeared in a newspaper or was broadcast, would appear exactly the same. Here are some examples that show a bias in the structure of the Yahoo! sites, bias pointing to the fact that the site is authored. The second, related set of questions has to do with the selection of the stories themselves. Do the AP and Reuters select the stories featured? And if so, how?

5. Limited Sources The user is given the illusion that, apart from categorising existing content, a portal does not affect what the user could access. Categorisation is always justified and presented as making a minimum number of value judgements so, for example, the terms "useful", "interesting" and "new" are given to describe the information presented on a page. It is never revealed that the sources of this information are limited, or that the content which portals provide or point the user to, is limited and determined by commercial agreements with other companies. Portal sites point to content that is essentially supplied by companies with which portal sites have agreements. To take an example, Yahoo.com, under the category "news", claims to offer a comprehensive news service, when in fact it features news content supplied mostly by Reuters, updated every hour. A study for FAIR showed that this covered-up agreement re-produces old media bias in the on-line world (Amster Burton & Amster Burton 1997:25).

6. Customisation The promise to customise the on-line experience is one that is made by all portals. The idea of customisation itself mirrors certain Internet-philic assumptions,

notably that Internet content serves the individual as opposed to the public and that the individual is a discrete, sovereign being who can choose independently. Customisation is done on the behalf of one individual rather than a group. It is "my news". Setting such propositions aside, in actuality, customisation on-line means choosing from available sources as opposed to choosing independently from the entire Web (as implied). In each of the 8 portal sites, the user is called to customise his or her pages, and in so doing to create a personal Web experience that meets his individual needs. The user soon discovers that this merely means choosing and formatting existing material and that one is only permitted to customise existing content. Adorno & Horkheimer's analysis of the culture industry describes the nature of such an illusion: "The culture industry perpetually cheats its consumers of what it perpetually promises. The promissory note which, with its plots and staging, it draws on pleasure is endlessly prolonged, the promise which is actually all the spectacle consists of is illusory; all it actually confirms is that the real point will never be reached, that the dinner must be satisfied with the menu." (Adorno & Horkheimer 1969:139). Ironically enough, a "menu" is what major portals present their users with as customisation. The sentence used by Microsoft on its MSN site to reveal this limitation is somewhat ironic: "MSN clips are quick bits of information available on the Web. They include top news stories video clips, stock quotes, and more. There is a wide array of Clips to choose from , allowing you to build your own unique MSN.com home page by adding or removing the Clips that are most useful to you"(MSN 1999) The promotion of customisation on-line is harmful not only because it makes false promises, but also because the illusion creates functions to legitimise the gathering of personal customer information by companies. By presenting customisation as beneficial for the customers and hiding the above limitations, companies justify their persistent demands for personal information when a user uses a site. Cookies (agents which follow a user in a site) and questionnaires all ask of the consumer to give up personal details and preferences. This aggressive marketing is presented not as a means for further financial exploitation, but as being in the user's interest. As MSN put it: "The cookie enables the Site to recognise information that you have specifically and knowingly provided to the Site. This results in a more relevant and customised news experience" (MSN 1999). The need for mediation will not go away, avoiding to meet it means that private interest will meet it. Was the Internet defined not as opposed to the state, electronic commerce would not have been introduced as easily in the on-line world. The Dot-com economy would not have come to existence and perhaps public authorities would have the functions which are not completed in private hands. The market constituted by these private operations does not function well.

The question is not whether being an elitist is better than being a populist, it is not whether people should themselves decide what is best for them. The question is whether we perceive of individuals as conceptually distinct autonomous entities, or accept that in the same way that such perception has not been the basis for politics in Western Europe for 400 years it should not be the basis for Internet regulation now. Commercial power and the state power which safeguards it will not wither away with interactive technology. The introduction of electronic commerce is not irrelevant to our on-line communication. We need to find a model between anti-statism and statism which deals with the needs of the on-line world. This can not possibly mean that we should get rid of the existing Public Service Tradition. It must mean a regime that makes mediators publicly accountable. On-line communication need to be defined as imperative for the proper functioning of democracy, as a public good which is an indispensable feature of our lives. This is why we need mean publicly funded and independently and accountable bodies providing with portal sites, search engines.

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REPORTS:

Tulpenwahn – Konferenzbericht von Florian Schneider

Sueddeutsche Zeitung, 8. Juni 2000

Eigentlich haben Tulpen keinen außergewöhnlichen Wert: Sie sind weder schön wie Orchideen noch duften sie wie Rosen. Trotzdem schnellten in den dreißiger Jahren des 17. Jahrhundert die Preise für einige Sorten in kürzester Zeit in schwindelerregende Höhen. Klein- und Großbürger steigerten sich in einen derartigen Spekulationsrausch, daß Außenstehende den Staat bereits um ein Verbot des Tulpenhandels ersuchten. Doch 1637, nachdem die Zwiebel einer besonders raren Sorte für damals sagenhafte 5000 Gulden den Besitzer wechselte, brach der gesamte Markt innerhalb weniger Stunden zusammen.

Seit den Zeiten des "Tulpenwahns" und dem ersten spektakulären Crash in der Geschichte des Kapitalismus symbolisiert ausgerechnet die biedere Tulpe Eitelkeit und Vergänglichkeit. "Tulipomania.Com" war der also vielsagende Titel einer Konferenz, die erstmals den Versuch unternahm, die "New Economy" einer systematischen politischen Kritik zu unterziehen. Im Amsterdamer Kulturzentrum "De Balie" traf sich am vergangenen Wochenende ein illustrierter Kreis aus Ökonomen, Unternehmensberatern, Sozial- und Wirtschaftswissenschaftlern, Medientheoretikern und Netzkritikern aus aller Welt, um die Aus- und Wechselwirkungen des Booms der neuen Märkte auf die sozialen und kulturellen Sphären zu erörtern. Was die Eulen für Athen, sind die Tulpen für Amsterdam: auf alle Fälle ein enormer Standortvorteil in der aktuellen Debatte. Angesichts einer dichten Infrastruktur und der Vielzahl von praktischen und theoretischen Aktivitäten braucht hier niemand glauben, allein durch die pathetische Deklaration von irgendetwas Neuem noch jemand hinter dem Bildschirm hervorlocken zu können. Obendrein ist spätestens, seit die "New Economy" erste Risse zeigt, Skepsis angesagt. Die gegenwärtige Euphorie sei in den meisten Punkten vergleichbar mit der Begeisterung, die die Einführung des Telegrafennetzes auslöste, stellte recht trocken Doug Henwood fest, der mit seinem Buch "The Wall Street" in den USA sicherlich zu den profiliertesten Kritiker des Casino-Kapitalismus gehört. Auch Robin Cowan, Professor an der Universität Maastricht, blieb vorsichtig, was die neue Qualität der ökonomischen Verhältnisse anlangt, und verstieg sich allenfalls zu der These: "Kleinste Veränderungen können in bestimmten Fällen ungeheure Veränderungen auslösen."

Egal ob Massenhalluzination oder realer Transformationsprozess - hervorstechendes Merkmal der "New Economy" ist ihre scheinbare Unausweichlichkeit. Ignacio Ramonet hatte die neoliberale Marktideologie bereits 1995 als "One-Idea-System" charakterisiert, deren Prämisse einst als Domäne eingefleischter Marxisten galt: "Die ökonomische Sphäre erhält Vorrang vor der politischen." Je autonomer die globalen Finanzmärkte operieren, desto populärer werden freilich die Ereignisse in den früher recht unzugänglichen Gefilden der Geld und Kapital-Transaktionen: Der Wirtschaftsjournalist ist unbestrittener Chronist unserer Zeit, Börsengänge und Kursentwicklungen diktieren die Topmeldungen des Tages, das Aktiendepot fungiert als Sparschwein oder feierabendlicher Nervenkitzel für immer breitere Schichten.

Um den postmodernen Kapitalismus zu kritisieren, reicht es sicherlich nicht, den Hype zu dekonstruieren oder in moralisierenden Urteilen zu verharren. Aufschlußreicher ist, die vielen, sich ständig verschiebenden Perspektiven zusammenzutragen, in denen die

Auswirkungen der "New Economy" jeweils wahrgenommen und erfahren werden. Die "Tulipomania"-Konferenz bot schon einmal eine Reihe verschiedener Optionen an, wer als Subjekte kommender sozialer Auseinandersetzungen oder Agent virtueller Gegenmacht in Frage kommen könnte.

Nach den Demonstrationen gegen die Treffen von WTO, Weltbank und IWF gilt die Koalition aus Gewerkschaften, NGO's und einer neuen US-amerikanischen Protestgeneration bewaffnet mit Videokamera, Laptop und Mobiltelefon als Hoffnungsträger einer Globalisierung von unten. Auf den ersten Blick mag es sich um Offline-Aktivismus der alten Schule handeln, der aber durch die weltweite Vernetzung der Basisgruppen neue und oftmals auch sehr materielle Dimensionen erhält. Denn daß der allergrößte Teil der Welt vom vermeintlich weltweiten Boom der Informations- und Kommunikationstechnologien ausgeschlossen bleibt, verschärft die Widersprüche zwischen erster und dritter Welt dramatisch. Daran ändert auch die Auslagerung vieler Teile der Soft- und Hardware-Produktion in die Klitschen der High-Tech-Zentren einiger asiatischer Länder nichts. Im Gegenteil, die Ein- und Ausschlussmechanismen entlang der verlängerten Werkbanken der Informationsindustrie produzieren einen "Digital Divide", der das herkömmliche Ausbeutungsgefüge noch potenziert.

Alicia Dogliotti ist Koordinatorin von NGO.net, einem Projekt, das sich der Verbreitung von Internetzugängen in unterentwickelten Regionen verschrieben hat. Systematisch werden in verschiedenen lateinamerikanischen Ländern kleine Dorfgemeinschaften mit "Cabinas", kollektiven Netzzugängen ausgestattet. Dogliotti kann ein Lied davon singen, wie schwer es ist, erst die Untiefen der lokalen Telekommunikationsmärkte zu umschiffen und dann die US- und eurozentrische Struktur des Internet aufzubrechen. Die Länder des Südens kommen schließlich weder in den Suchmaschinen vor noch in den Szenarien des sogenannten perfekten Marktes. Der rasante Anwuchs der Bandbreiten in den hochentwickelten Ländern steht im eklatanten Widerspruch zu der Tatsache, daß 80 Prozent der Weltbevölkerung wahrscheinlich noch nie in ihrem Leben ein Telefongespräch geführt haben dürften. In den USA und Westeuropa mutiert das Proletariat derweil zum "Konsumtariat". Politische Rechte scheinen unter dem Imperativ von grenzenlosen Geschäften rund um die Uhr zu bloßem Verbraucherschutz zu degenerieren. Daß dessen legales Instrumentarium ohnehin kaum mehr greift, darin sind sich die Vertreter der einschlägigen Lobby-Organisationen einig. Der traditionelle, langwierige Gesetzgebungsweg scheint nicht nur durch die internationale Reichweite des elektronischen Handels auf der Strecke zu bleiben, bürokratischer Konsumentenschutz von Staatswegen wirkt vor allem durch die rasanten Innovationen reichlich unzeitgemäß.

Die weitverbreitete Auffassung, das Internet könne sich selbst regulieren, bringt indessen skurile Formen von "Private Governance" hervor: Institutionen wie die neue "Internet-Regierung" ICANN, die die Namensvergabe im Netz regelt, das W3-Konsortium oder die "Internet Engineering Task Force (IETF)", die über die technischen Standards wachen, sind im wesentlichen von privatwirtschaftlichen Interessen geprägt und entziehen sich den Formen herkömmlicher politischer Kontrolle. Deregulierung und Liberalisierung der Kommunikationsmärkte führen zu Konzentration und Monopolisierung. Michael Latzer, Forschungsdirektor an der Österreichischen Akademie der Wissenschaften, gibt den Kleinen der Branche schon mittelfristig keine Chance: enorme Aufwendungen für Forschung und Entwicklung, die Verlagerung der Fertigungskosten auf das immer teurere erste Stück bei dann aber dynamisch anwachsenden Erträgen, sowie unabwendbar hohe Ausgaben für Werbung und Promotion, fachen einen gnadenlosen Verdrängungswettbewerb auf den "Winner-takes-all" Märkten an. Für Verlierer gibt es nicht einmal mehr den zweiten Platz.

Vor diesem Hintergrund erwägt der niederländische "Consumentenbond", immerhin größte Verbraucherschutzorganisation der Welt, dem drohenden Machtverlust nun mit ungewöhnlichen Maßnahmen gegenzusteuern. Im Interesse der Konsumenten sollen nicht nur Gütesiegel für vorbildliche Internet-Händler und servicefreundliche Portale mit digitalen Tante-Emma-Läden vergeben werden, sondern zusammen mit "Hackern" gezielt Datenschutzverletzungen und Sicherheitslücken bei den großen Konzernen aufgedeckt werden.

"Nettokratie" ist eine der jüngsten Wortschöpfungen, die den Blick auf die soziale Zusammensetzung der Informationsgesellschaft lenken soll. Den von Arthur Kroker schon 1994 zur "virtuellen Klasse" erhobenen Entrepreneurs steht ein Heer von Netzsklaven gegenüber, die sich bei den Start-Ups in den Silicon-Somethings verdingen: Über siebzig verschiedene Varianten von Valleys, Alleys über Coasts, Villages und Vineyards, bis hin zum Cyberabad, listet die Siliconia-Homepage auf. Die Arbeitskräfte, sagt Andrew Ross, der als Direktor des American Studies Program an der New York University die Situation im Silicon Alley untersucht hat, seien zur Hälfte Werkvertragsarbeiter, die vor allem darauf angewiesen seien, daß ihre Aktienanteile steigen. Das Durchschnittseinkommen liege mit 50.000 US Dollar ungefähr bei der Hälfte dessen, was in den alten Medien verdient werde. Bemerkenswert ist, daß ausgerechnet Künstler mit ihrem flexiblen und selbstlosen Arbeitsethos das Rollenmodell für die "freiwillige Niedriglohn-Armee" abgeben. Der "Glamour der Boheme" kommt nach Ross einer Einladung zur Unterbezahlung gleich.

Etwas optimistischer blickt Richard Barbrook auf die Gegenwart. Der Londoner Ökonom ist bekannt geworden mit einer großen Polemik gegen die libertäre kalifornische Ideologie rund um das Magazin "Wired". Inzwischen hat er sich auf das Studium der "Digital Artesans" verlegt: Sich selbst motivierende Arbeitskräfte, die in den flachen Hierarchien der jungen Internet-Firmen operieren und nichts anderes zu verkaufen haben als ihr Wissen. Die Gestalter und Verwalter der Codes ähneln jedoch eher Gramsci's organischen Intellektuellen als einer digitalen Arbeiterklasse. Barbrook gehört zu den Verfechtern der gewagten Theorie, daß der Kommunismus bereits real existiert. Als eine Art "Dot-Communismus", der vor allem auf der Geschenkökonomie der Open-Source-Gemeinde fußt. Richtig ist in jedem Fall, daß der freie Austausch von Gütern und Informationen im Internet glänzend funktioniert - ganz im Gegensatz zu diversen halbsbrecherischen Business-Modellen, die am grünen Tisch entworfen wurden und von technischen Problemen mangelndem Vertrauen, kaum überzeugenden Geschäftsideen gebeutelt werden. Neben dem puristischen Modell von Stallman's. "GNU General Public License" gibt es jetzt schon unzählige hybride Varianten in einer wachsenden Grauzone zwischen "Open Source" und "E-Commerce", die die digitale Warenwelt spätestens dann bestimmen werden, wenn das schnelle Geld der Börsengänge erstmal verbraucht ist.

Daß die "New Economy" aber nicht nur hochqualifizierte Jobs hervorbringt, sondern vor allem Unmengen von vergleichsweise banalen Tätigkeiten wie Telefonieren, Pizza-Bringen oder Saubermachen schafft, wird in den gegenwärtigen Debatten gewöhnlich unterschlagen. In den USA machen seit einigen Wochen Tausende von Reinigungskräften mit einer Streikwelle bisher ungekannten Ausmaßes auf sich aufmerksam. Die "Janitors", die die Office-Türme jede Nacht von den Überresten der immateriellen Arbeit reinigen, sind meist lateinamerikanische Einwanderer. Die "Janitors" kämpfen um eine sukzessive Anhebung ihrer Hungerlöhne, für die die boomenden High-Tech-Firmen allerdings keine Verantwortung übernehmen wollen. Für die schmutzigen Geschäfte sind nämlich Subunternehmer zuständig.

Wo Bildschirme in den Himmel wachsen Die Datendichter treffen sich zur «Tulipomania Dotcom»

Detlef Borchers

Neue Zürcher Zeitung, 9. Juni 2000

Im 17. Jahrhundert grassierte in den Niederlanden das Tulpenfieber. Für einzelne Zwiebeln wurden Phantasiesummen bezahlt. Der Boom währte nur kurz, liefert nun aber - Jahrhunderte später - den Veranstaltern einer Konferenz über die digitale Ökonomie einen Anknüpfungspunkt. Anlässlich der «Tulipomania Dotcom» wurde letzte Woche in Amsterdam und Frankfurt versucht, der «Bubble Economy» mit aufgeblasenem Soziologen-Jargon gerecht zu werden und entweder mit Konzepten der Computerwissenschaft Ideologiekritik oder mit den Mitteln der Ideologiekritik die Dekonstruktion der Informatik zu betreiben.

Drei Tage lang versammelten sich letzte Woche die Kritiker der Neuen Internet-Ökonomie, zuerst in Amsterdam, dann in Frankfurt. Die Konferenz «Tulipomania Dotcom»* sollte Grundsätzliches leisten, Theoriearbeit. Von den Denkansätzen der Vergangenheit verabschiedete man sich mit grossem Pomp: «Ehemals innovative akademische Paradigmen wie Postmodernismus und Cultural Studies sind unfähig, mit diesen Phänomenen [gemeint ist das Internet] adäquat umzugehen; stattdessen kreisen sie in zunehmend isolierten Kämpfen und irrelevanten Jargon-Kriegen um sich selbst und halten dabei ihre Praktiker und ihre Gefolgschaft im bequemen Gefängnis selbstreferenzieller Diskurse fest», verkündete das Thesenpapier zur Konferenz in hohl klingender Sprache.

Als Buhmann nahm man nach der Wissenschaft die schreibende Zunft ins Visier: «die Dominanz des Business-Journalisten, jenes Chronisten unserer Zeit, der in den meisten Fällen sich auf die Wiederaufbereitung von Preetexten zu einem glorreichen Börsengang beschränkt». Dennoch waren Business-Journalisten in Amsterdam und Frankfurt gelitten und wurden weder verprügelt noch dekonstruiert. Sie mussten nur die Referate aushalten, die - manchmal rührend naiv, manchmal akademisch aufgeblasen - entweder mit Konzepten der Computerwissenschaft Ideologiekritik oder mit den Mitteln der Ideologiekritik die Dekonstruktion der Informatik betreiben wollten.

Glückliche Begleitumstände

Der Zeitpunkt für ein solches Unterfangen war glücklich gewählt. Gehätschelte Jungunternehmen der Neuen Ökonomie - das Modehaus Boo.com und der Spielzeugversender Toysmart.com - waren wenige Tage zuvor kollabiert. Die Zusammenbrüche des Auktionshauses Surfbizz.com und der Nachrichtenagentur APB-news.com wurden während der Konferenz bekannt und lieferten Stoff für Diskussionen. Rechtzeitig zur Konferenz erschien auch Paulina Borsooks Buch «Cyberselfish», eine gründliche, lesenswerte Abhandlung über die wenig ausgeprägten Wertvorstellungen der Global Internet Player. Auch die deutsche Ausgabe der «Financial Times» versorgte die Konferenz mit Diskussionsstoff. In der Wochenendausgabe der Wirtschaftszeitung gingen John Micklethwaite und Adrian Wooldrige der Frage nach, ob die Wissensarbeiter der digitalen Ökonomie als eine neue Klasse begriffen werden könnten. «Herrscher ohne Heimat» betitelten die Journalisten ihre Gesellschaftsanalyse, und sie stellten den «Kosmokraten» punkto Geschmack, gesellschaftlicher Verantwortung und Bildung vernichtende Kritiken aus.

Nahtlos reihte sich an diese Kritik der Vortrag von Steve Cisler, der als Journalist seit Jahrzehnten aus dem Silicon Valley berichtet. Cisler gab einen drastischen Abriss der Missstände, die diesen Landstrich prägen, der von dem Gründer der Internet-Firma Pointcast einmal als «Florenz der Neuen digitalen Welt» betitelt worden ist. Im Unterschied zu den Medici habe aber Dorman nichts von den 120 Millionen, die er mit Pointcast verdiente, ehe diese Firma einging, für die Allgemeinheit gestiftet.

Lieber Code als tot

In seinen Auslassungen «Von der Netzkritik zur Politik des Codes» versuchte sich der Konstanzer Netzaktivist Reinhold Grether, Mitglied der deutsch-schweizerischen Künstlertruppe Etoy, an einer Begründung des «Netzwissens». Dieses «Netzwissen» funktioniere genau gleich wie die objektorientierte Programmieretechnik. Bei ihr werden zusammengehörende Datenstrukturen und Algorithmen als Objekte «verkapselt». Die innere Struktur eines Objekts ist von aussen nicht einsehbar. Objekte können untereinander nur über klar definierte Schnittstellen Botschaften austauschen. In dieser Weise zirkulieren nach Grether die Informationsströme im Internet und lassen sowohl die überbewerteten Internet-Firmen wie auch Gegenstrategien im Stil von Etoy entstehen. Selbst grosse, multinationale Firmen, die im Internet etwas erreichen möchten, müssten sich, so Grether, den «Codes des Netzwissens» unterwerfen. Mit der Auseinandersetzung mit dem auf den Verkauf von Spielwaren spezialisierten Internet-Unternehmen Etoys hat Etoy kürzlich bewiesen, dass der idealistischen Netzgemeinde, die in den letzten paar Jahren vom entfesselten E-Commerce hinweggefegt zu werden drohte, nicht nur der Rückzug in Resignation und Ohnmacht bleibt.

Die rührend einfache Politik des Codes versuchte der aus Stockholm kommende Alexander Bard zu vertiefen, indem er von der feudalen und der kapitalistischen die jetzt entstehende Informationsgesellschaft unterschied. In ihr lebt das «Consumariat» in loser Form elektronischer Stämme unter der Herrschaft einer «Netokratie», die es schafft, «das Netz» mit den Werten zu besetzen, die einstmalig Gott und die Nation bildeten. Mit der Frage, wer denn schon bereit sei, für das Netz zu sterben, versuchten einige Netz-Aktivisten seine Schlussfolgerungen zu relativieren.

Eine düstere Analyse lieferte schliesslich der Soziologe Michael Gurstein von der University of British Columbia, jenes kanadischen Staates, der der Firma Microsoft offiziell «kapitalistisches Asyl» gewähren möchte, sollte das Urteil der US-Justiz zu hart ausfallen. Gurstein bezweifelte rundweg jede Möglichkeit, dass sich stabile gesellschaftliche Strukturen in einer Ökonomie entwickeln können, deren technologische Grundlagen sich alle 18 Monate ändern. Er behauptete, dass im Internet keine Macht demokratisch legitimiert sei, auch nicht die Gegenmacht: «Selbst Päpste werden gewählt, nur Bill Gates und Linus Torvalds nicht.» Gurstein prognostizierte eine freudlose Zukunft, in der machtbewusste Gangs und Firmenallianzen sich um Einfluss streiten.

Mechanik statt Ideologiekritik

In kuriosen Gegensatz dazu standen die Auslassungen des einzigen Vertreters jener Partei, die unverdrossen Milliarden um Milliarden in das Internet pumpt. Business Angel Nils de Witte von der Firma Ne-BIB hielt ein Plädoyer für eine Ökonomie des Herzens. Als Vorbild dienten ihm dabei die Überlegungen der amerikanischen Soziologinnen Bonnie Nardi und Vicki O'Day, die an ein Internet mit menschlichem Antlitz glauben und dieses kürzlich in ihrem Buch «Information Ecologies: using technology with heart» beschrieben haben.

Aufschlussreich war der Vergleich, den Andrew Ross von der New York University vortrug. Der Amerikanist Ross forscht über die ökonomischen Existenzbedingungen moderner Schriftsteller und entdeckte dabei Parallelen zu den Menschen, die als HTML-Datotypisten und Call-Center-Fliessbandarbeiter in den Dotcoms die E-Zwiebeln züchten. Noch vor den Geldspritzen der Risiko-Kapitalisten machten die flexiblen Arbeiter mit dem Lebensstil des freien Künstlers und einer aller gesellschaftlichen Verantwortung entsagenden Ideologie gemäss Ross den Erfolg der Dotcoms möglich.

Für Geert Lovink sind die HTML-Datotypisten und die Call-Center-Fliessbandarbeiter offenbar eine Art Lumpenproletariat, die des «virtuellen Intellektuellen» bedürfen, um ans Licht zu gelangen. Lovink, einer der Organisatoren der «Tulipomania Dotcom», gab dieser «sich entwickelnden, translokalen, virtuellen Intelligenzia, die gerade im Zentrum der Netzwerke aktiv ist», als Hausaufgabe mit auf dem Weg, «die genauen Mechanismen und nicht nur die Konsequenzen der vernetzten globalen Ökonomie zu verstehen». Die «genauen Mechanismen» werden den thematischen Schwerpunkt der zweiten «Tulipomania Dotcom» bilden, die im Oktober in Frankfurt stattfinden soll.

<http://www.heise.de/tp/deutsch/special/eco/8236/>

KONFLIKTFELDER DER NEW ECONOMY

von Reinhold Grether

for Telepolis

Monomedia - oeconometa - Tulipomania Dotcom

Jede Zeit bringt, einem geflügelten Wort zufolge, eine Form hervor, worin sie ihre Gedanken erfasst. Die philosophischsten Textformen der neunziger waren das mehrere Abschnitte umfassende "executive summary" am Beginn und der oft einzeilige "disclaimer" am Ende des Jahrzehnts. Dass es noch knapper geht, darüber belehrt der neue Trendsetter des "conference titles". Es brauchte gerade mal drei Wochen und vier Städte, um mit "Monomedia" www.monomedia.hdk-berlin.de/ (Berlin), "oeconometa" www.oeconometa.de/ (Witten) und "Tulipomania Dotcom" www.balie.nl/tulipomania/ (Amsterdam und Frankfurt) die Poetik der Gegenwart in ein Doppelwort zu verdichten.

Alle drei Konferenzen versuchten, den Ende der achtziger Jahre infolge des Globalisierungs- und Informatisierungsdrucks zusammengebrochenen Dialog zwischen Kultur und Wirtschaft auf eine neue weltkulturkapitalbildende Umlaufbahn zu hieven. oeconometa (zwei Tage für 2.900 dm) knuepfte den Faden mit Zentralbegriffen wie Wahrnehmung, Erlebnis und Inszenierung genau an der Stelle neu, wo er seinerzeit gerissen war. Monomedia (drei Tage für 890, dann verbilligt auf 590 dm) folgte dem bekannten Baudrillard'schen Vorschlag, die neunziger gefaelligst auszulassen, und schnitt die Dimensionen des Crossovers, des Blurrings und des Hypermedialen auf die Selbstverstaendlichkeit von Werten und den Monologismus von Selbstgewissheiten zurück - in klassischen Begriffen eine veritable Konterrevolution gegen das Netz und nichts weniger als eine Parallellaktion zu Haiders Willen zum Einfachen.

Tulipomania Dotcom (zwei Tage Amsterdam für 60 dfl und ein Nachmittag Frankfurt umsonst) entwickelte die Netzkritik zu einer umfassenden Bestandsaufnahme der Konfliktfelder der New Economy und elektronifizierte gewissermassen den traditionellen Diskurs zwischen Wirtschaft und Kultur, unterliess es aber, zu völlig neuen Fragestellungen aufzubrechen, die den alten Abgrenzungen den Garaus gemacht haetten. "Wirtschaft" ist heute ein enormer Kulturproduzent, waehrend "Kultur", insbesondere in Gestalt der Geisteswissenschaften, sich fragen lassen muß, ob sie nicht, unfaeelig ihre Ideen zu programmieren, in der Taubstummensprache eines Neuen Analphabetismus kommuniziert. So beliess es der schwachste Teil von Tulipomania Dotcom - die vom Amsterdamer Lokalfernsehen uebertragene Schlussdebatte - beim altbackenen Antagonismus von kulturfeindlicher Wirtschaft und wirtschaftsfremder Kultur, obwohl man kurz zuvor der These Korinna Patelis (Goldsmiths College, London), daß Software Kultur sei, beifaellig zugestimmt hatte. Wenn Technokultur nun einmal die letzte Karte des Westens ist, dann sollte saemtliche staatliche Foerderung schleunigst in diesen Bereich verlagert werden!

Tulipomania Dotcom, das ja die Themen Internetoekonomie und Neue Finanzmaerkte ganz oben auf die Tagesordnung gesetzt hatte, fand an zwei Brennpunkten europaeischer Wirtschaftsdynamik statt. Als neuem europaeischen Hauptsitz von Cisco www.cisco.com/warp/public/3/nl/index.html schliesst Amsterdam zu den fuehrenden europaeischen Cyberstaedten Helsinki, London und Stockholm auf, waehrend Frankfurt mit der Europaeischen Zentralbank www.ecb.int/ Kontrolleur der europaeischen Finanzmaerkte und Hueter der europaeischen Waehrung wird. Die Konferenzidee geht auf den Neu-Australier Geert Lovink zurueck, und Eric Kluitenberg für Amsterdam und Andreas Kallfelz fuer Frankfurt besorgten die kongeniale konzeptionelle und organisatorische Umsetzung. Acht Panels in Amsterdam (The New Economy - Premises and Pitfalls; Silicon Valley as a Global Business Model; Alternative Strategies; Inclusion and Exclusion in the New Economy; Consumer Rights; Nettocracy: A Class Analysis of the Information Society; Convergence, Mergers and Monopolies; Closing Plenary Session) und eines in Frankfurt und dazwischen ein Minibusshuttle, um einige Sprecher zweimal auftreten zu lassen.

Da alle Beitrage auf der Webseite www.balie.nl/tulipomania/ veroeffentlicht werden (sollen), oder auch schon in Telepolis www.heise.de/tp/deutsch/inhalt/co/8212/1.html nachzulesen sind, beschaenke ich meinen Bericht auf die Themenfelder "Kognitariat" und "Konsumtariat". Strasse frei für die Wassertraeger des Tulpenwahns.

Kognitariat

Nach Ronald Coase's www.nobel.se/laureates/economy-1991-press.html beruehmter Theorie gibt es Firmen dann, wenn es billiger ist, jemanden zu beschaeftigen, als die Arbeitsleistung am freien Markt einzukaufen. Jede Veraenderung auf den Arbeits-, Waren- und Finanzmaerkten und jede Innovation auf den Feldern von Wissen, Kommunikation, Technologie und Infrastruktur wirkt direkt auf das relative Verhaeltnis von Organisations- und Transaktionskosten ein und fuehrt entweder zu Entlassungen oder Einstellungen. Informationstechnologien sind fuer diese Theorie lediglich ein Anwendungsfall (insofern bleibt alles beim alten), aber noch die kleinste Softwarevariante kann das ganze Muster in Richtung organisatorischer Firmenstrukturen oder in Richtung transaktioneller Netzwerke verschieben.

Richard Barbrook (HyperMedia Research Centre www.hrc.wmin.ac.uk/ London) verschaerft diese immer schon beobachtbare, aber im Internet neue Formen annehmende Divergenz zum Dualismus zwischen Casino-Kapitalismus und Cyber-Kommunismus, zwischen virtueller Klasse und kooperativer Gemeinschaftlichkeit. Barbrook ist freilich weit davon entfernt, die "gegenseitige Hilfe" (Kropotkin) zu idealisieren, steht sie doch meist in langen Abhaengigkeitsketten zum Casino-Kapitalismus und potenziert oft nur die ohnehin wachsende Tendenz zur Selbstaussbeutung. Aber das ist eben nur die eine Seite. Wie der Pariser Oekonom und Redakteur der in der Negri/Hardt-Tradition stehenden ambitionierten Zeitschriftenneugruendung "multitudes" <http://www.samizdat.net/multitudes/> Pascal Jollivet ausfuehrte, erzeugt der Ausschluss aus kapitalistischen Verwertungszusammenhaengen im Gegenzug der Betroffenen eine an gegenseitigem Austausch, kooperativem Lernen und medialer Intervention orientierte Kulturbewegung, die das Rueckgrat der franzoesischen Streiks gegen das dortige Bildungssystem ausmacht: die Arbeitslosen organisieren die Proteste ihrer Kinder.

Untersucht man mit Andrew Ross, Leiter des American Studies Programs www.nyu.edu/gsas/program/amerstu/corefac.html der New York University, die kognitarielle Mittelklasse zwischen IPO-Management und OpenSource-Elite, dann haben die Haelfte der in Silicon Alley Beschaeftigten Projektvertraege, die ihnen die Haelfte dessen einbringen, was die Alten Medien zahlen. Und darunter gibt es die schnell wachsende Dienstbotenklasse der Reinigungskraefte, Pizzalieferanten, Taxifahrer und Hosenbuegler. In Frankfurt referierte Helge Peukert, Wirtschaftstheoretiker an der dortigen Universitaet, unter dem Stichwort der "flexploitation" eindringlich ueber die sozialen Kosten des networking und die personellen Zumutungen der Allzeitverfuegbarkeit. Er tat dies anhand von "Luc Boltanski / Eve Chiapello, Le nouvel esprit du capitalisme, Paris: Gallimard 1999", einem 843 Seiten-Waelzer, der offenbar weit ueber Sennetts "flexiblen Menschen" www.heise.de/tp/deutsch/inhalt/buch/2301/1.html hinausgeht.

Konsumtariat

Solche Kritiken beschreiben den Schlagschatten, den eingefahrene auf emergente Anthropologien werfen. Fuer deren weltkulturelle Potentiale fehlt ihnen das Sensorium. Alexander Bard, der bald sein Buch "The Netocrats" zum Drucker bringt und bestverpflichtet auf dem Podium erschien, entwickelte am Flipchart eine der gelaeufigen Geschichtstabellen, in deren letzter Spalte die Gegenwart erreicht wird. Um ein paar von Bards Triaden plastisch werden zu lassen: God - Man - Net; aristocracy - bourgeoisie - netocracy; dictatorship - democracy - plenarchy; religion - academia - electronic tribalism; serfs - workers - consumtariat. Dieses Konsumtariat wird sich Bard zufolge auf C2B-Plattformen artikulieren. Ein einfaches Beispiel waere priceline www.priceline.com/, wo Konsumenten Zahlungsangebote fuer bestimmte Waren hinterlegen. Aber letztlich kann jedes Konsumenteninteresse, das auf Produktgestaltung oder Firmenverhalten Einfluss nehmen will, oder das Handhabungsprobleme oder Benutzererfahrungen austauschen will, solche Consumer-to-Business-Plattformen entwickeln.

James Love, Leiter des Consumer Projects on Technology www.cptech.org/, steuerte zur ICANN-Debatte das Argument bei, dass nicht nur aus freespeech-, sondern auch aus Konsumentenschutzgruenden spezielle Domains fuer Konsumenten Anliegen geschaffen und freigehalten werden muessen. David Mandl vom Autonomedia Verlag www.autonomedia.org/ beschrieb die in Deutschland durch die Teles-ISDN-Karten

www.teles.de/ beruechtigte Hotline-Strategie dubioser Firmen, ein Produkt kostenlos, billig, fehlerhaft usw. abzugeben, und das eigentliche Geld ueber die Hotline zu verdienen, mittels derer der Kunde das Produkt doch noch funktionsfaehig machen will. Maurice Wessling von Bits of Freedom www.bof.nl beschaeftigte sich mit dem Niedergang von Konsumentenrechten. Urheberrechte unterminieren die Evaluierung der Produkte, wie die Auseinandersetzung um die Entschluesselung der Filtersoftware CyberPatrol zeige. Das Privatrecht unterliege schleichenden Aushoehlungen, wenn Kaeufe nicht mehr anonym, sondern nur nach Identifizierung getaetigt werden koennen. Und Wibo Koole vom hollaendischen Verbraucherverband will kuenftig Hacker einsetzen, um Sicherheitsluecken und Datenschutzverletzungen aufzuspueren.

Windhandel

Wie raffiniert der Konferenztitel "Tulipomania Dotcom" gewaehlt war, laesst erst die Lektuere der entsprechenden Passagen in "Simon Schama, Überfluss und schoener Schein: Zur Kultur der Niederlande im Goldenen Zeitalter, Muenchen: Kindler 1988" erkennen. Die Tulpe war ein aus der Tuerkei importierter Luxusgegenstand, der jedoch durch Abtrennen der Brutzwiebel von der Mutterzwiebel unbegrenzt reproduziert werden konnte. Neue, noch schoenere Sorten entstanden so schnell, daß der Versuch, einzelne Sorten vor Imitation zu schuetzen, staendig ueberholt wurde. "Die Einfuehrung neuer "Packungsformate" beschleunigte die Ausweitung des Marktes." (S. 380) Es entstand eine ununterbrochene Angebotskette zwischen Luxus- und Massenhandel. Mit bescheidenem Einsatz konnte sich jeder am Gluecksspiel des Kaufens und Spekulierens beteiligen. Die Zeit zwischen dem Einpflanzen im Oktober und dem Ausgraben im Juni belegte ein wachsender Warenterminhandel. Der Handel wurde immer virtueller und bezog sich schliesslich nur noch auf ein uebertragbares Stueck Papier mit einem imaginaeren Lieferdatum drauf. Es waren, nach Schama, die Regulatoren, deren Moralismus einen solchen "windhandel" nicht mehr aushielt, die der Spekulation ein Ende setzten. Naechsten Monat erscheint zudem "Peter M. Garber, Famous First Bubbles: <http://mitpress.mit.edu/book-home.tcl?isbn=0262072041> The Fundamentals of Early Manias, Cambridge: MIT 2000", das nachweist, dass starke Preisschwankungen schon immer zum Tulpenhandel gehoerten und dass die Auswirkungen des Spekulationszusammenbruchs auf die Realwirtschaft denkbar gering war. Wussten wir es nicht: Nach dem Crash ist vor dem Crash.

Dank an Andreas Kallfelz, Franz Liebl, Geert Lovink und Florian Schneider.

TULIPOMANIA DOTCOM, FRANKFURTER KUNSTVEREIN, 4. JUNI 2000, 16-20 UHR

Zusammenfassung der Vorträge und Diskussionen

von Andreas Kallfelz

Während die zwei vorausgegangenen Tage eine dichte Folge thematisch jeweils eingegrenzter Podien boten, fand der Frankfurter Nachmittag eher im Stil einer freien und dialogischen Vortrags- und Diskussionsrunde statt. Zum Teil bot sie die Gelegenheit, Diskussionen des Amsterdamer Veranstaltungsteils noch einmal zu rekapitulieren, brachte in der Einbeziehung von Experten aus dem näheren Kontext aber auch neue Gesichtspunkte hervor. Dass sie einen eher informellen und unaufwendigen Charakter hatte, entsprach ihrer gedachten Funktion als Scharnier und Anknüpfungspunkt für eine

geplante Folgekonferenz mit ausgearbeiteteren und die gewonnenen Einsichten weiterführenden Fragestellungen.

Ein Hintergrund, der neben dem Bezug zu Frankfurt als Finanzplatz eine Rolle spielte und auf den **Geert Lovink** in seinem Eingangsstatement hinwies, war die Absicht, das Thema New Economy in einen kulturellen Bezug zu stellen. Es gibt eine neue technologische Kultur, eine Medienkultur, die über ein paar schöne Computerinstallationen hinausgeht, und diese zu artikulieren und dabei in einen Dialog mit den gesellschaftlichen und wirtschaftlichen Kräften zu treten, statt sich auf eine marginale Position zurückzuziehen, ist eines der Motive dieses Projekts. Auch wenn die Einflussmöglichkeiten beschränkt sind, ist es Aufgabe der Kultur, die Richtung, die die Entwicklung der zunehmenden Vernetzung nimmt, durch eine aktive Auseinandersetzung mitzubestimmen, und nicht in einen Fatalismus oder den Ruf nach staatlicher Regulierung zu verfallen.

Dabei beschränkt sich der Blick auf die New Economy nicht auf Erscheinungsformen eines „Kasino-Kapitalismus“, wie er z.T. mit den spekulativen Überbewertungen (oder mittlerweile auch entstehenden Abstürzen) einer Reihe von Technologie-Aktien einher geht, sondern richtet sich ebenso auf den langfristigen Einfluß der Computer-Vernetzung und die Vielzahl der sie begleitenden Möglichkeiten und Wirkungen.

Der erste Teil schlug einen Bogen von einer Kritik der New Economy aus amerikanischer Sicht über eine Bestandsaufnahme der deutschen New Economy, der Vor- und Nachteile und der Erfolgsbedingungen, bis zu einem Entwurf alternativer Geschäfts- und Distributionsmodelle auf der Basis einer umfangreichen Vernetzung. Abgeschlossen wurde er von einem ausgearbeiteten Vortrag zum Verhältnis von traditionellen, z. T. ins Internet importierten politischen und wirtschaftlichen Strukturen und den neuen Bedingungen einer komplexen, fest gefügte Strukturen auflösenden Netzkultur.

Douglas Henwood stellte zunächst den viel zitierten Boom der amerikanischen Wirtschaft in den 90ern in Frage. Tatsächlich liegt das US-Wirtschaftswachstum niedriger als in den 50er und 60er Jahren, und die angeblich treibende ICT-Branche begann erst in den späten 90ern überhaupt zur Produktivitätssteigerung beizutragen und erlaubt noch keine Rückschlüsse auf ihre langfristige Stabilität. Auch ist die US-Wirtschaftsentwicklung sehr stark durch ausländische Kredite finanziert.

Gleichwohl behauptet sich in den Medien das Bild einer geradezu mythischen neuen Ära der New Economy, die für Henwood allerdings keine so fundamentalen Unterschiede zu früheren durch technologische Entwicklungen (Telegraph, Automobil, Fernsehen etc.) ausgelöste Transformationen des Wirtschaftssystems beinhaltet. Dabei zeichnet sie sich jedoch durch ein sehr hohes Niveau der Transaktionen auf den Aktienmärkten im Verhältnis zu manifesten wirtschaftlichen Werten aus, was die Verlässlichkeit von Analysen und Prognosen ernsthaft in Frage stellt.

Die Vorstellung von der New Economy als einem dezentraleren und weniger hierarchischen Wirtschaftsmodell erfüllt sich für Henwood ebenfalls nicht. Tatsächlich sieht er eher eine stärkere Konzentration, erhöhten Druck auf den Arbeitsmarkt und eine Verschärfung der Handhabung der Urheberrechte. Auch die Behauptung, die neuen Entwicklungen in der New Economy und an den Börsenmärkten würden die Finanzmacht demokratisieren, indem sie den Massen Zugang zum Aktienhandel verschaffen, relativiert sich angesichts der Tatsache, dass die Kluft zwischen arm und reich in den USA weiter wächst.

Während die New Economy nur 5% der Wirtschaftsaktivitäten ausmacht, gewinnt sie als Vorzeigemodell des Kapitalismus eine ideologische Funktion. Sie propagiert ein anderes, demokratischeres und weniger hierarchisches Gesicht der Wirtschaft. Doug Henwood, dessen Buch über die New Economy im Herbst herauskommt, versucht die hinter diesem Erscheinungsbild verborgenen Verhältnisse deutlich zu machen.

Michael Pluznik und **Dirk Siewert**, die als ehemalige Investmentbanker und aktuelle Internet-Unternehmer die Marktstrukturen der New Economy aus der eigenen Praxis heraus kennen, machten demgegenüber geltend, dass Henwoods Perspektive vor allem von den amerikanischen Verhältnissen geprägt sei. Die New Economy ist aber eine globale Entwicklung, die in der Summe eher positive Auswirkungen hat: bei seinem Unternehmen *Tiss.com*, einem virtuellen Flugbuchungssystem, liegen diese laut Pluznik nicht nur in größerer Effizienz, sondern auch in der stärkeren Partizipation der Mitarbeiter, flacheren Hierarchien, Ortsungebundenheit der Arbeitsprozesse und daraus folgenden international stärker dezentralisierten Strukturen.

Nach Henwood lässt sich ein einzelnes Firmenmodell jedoch nicht auf die Entwicklungen im großen Maßstab übertragen. Dort seien die Strukturen mindestens so hierarchisch geblieben wie sie waren und der Abstand zwischen arm und reich habe sich vergrößert. Und auch wenn die Arbeit dieselbe sei und im selben vernetzten System stattfinde, sei die Position eines Programmierers im Silicon Valley von der eines Programmierers in Bangalore doch grundverschieden: die einen sind im allgemeinen am Kapital des Unternehmens beteiligt, die anderen nur als Auftragnehmer beschäftigt.

Dirk Siewert stimmte Henwoods Analyse, besonders auf die USA bezogen, zu, in Deutschland sei die Verteilung des Reichtums bei weitem ausgeglichener. Man unterliege auch einem Missverständnis, wenn man die New Economy wirklich für ein *neues* Wirtschaftsmodell halte. Dies zeigen auch die ersten Abstürze von Dotcom-Unternehmen, die im übrigen eine wünschenswerte Korrekturwirkung auf den übertriebenen Hype in Europa hätten. In Wirklichkeit seien die wirtschaftlichen Funktionsweisen dieselben wie in der Old Economy, der wesentliche Unterschied bestehe nur darin, dass mit dem Internet neue, flexiblere Vertriebswege erschlossen werden könnten. Der Unterschied ihres Unternehmens zu traditionellen Brick & Mortar Reisebüros bestehe vor allem in der höheren Effizienz.

Siewert unterschied die Entwicklung des Internet in drei Stufen: 1. Als *Informationsmedium*, das weltweiten Zugang etablierte. 2. Als *Kommunikationsmedium*, das aber in der Anzahl, der breiten Streuung und der erschwerten Differenzierbarkeit der Kommunikationsvorgänge zunehmend auch Probleme erzeugt und dabei zeigt, dass die klassischen Kommunikationswege ihre Bedeutung nicht verlieren (e-mail-Überflutung; Missverständnisse, die beim direkten oder telefonischen Kontakt leichter vermieden werden etc.). 3. Als *Transaktionsmedium*, worin im wesentlichen die zukünftige wirtschaftliche Bedeutung des Internets liegt. Auf mittlere Sicht werden die in der Distribution traditionell starken Unternehmen auch im Internet führend sein und nur relativ wenige neue Unternehmen, die mit einem wirklich innovativen Businessmodell eine kritische Masse erreicht haben, auch in der New Economy überleben.

Felix Stalders Beitrag stellte im folgenden zur Diskussion, in welcher Form eine Internet-Ökonomie tatsächlich über traditionelle Wirtschaftsmodelle hinausgehen kann. Business im Internet sei nämlich im wesentlichen geprägt von alten Konzepten, die effizienter umgesetzt und um einige Funktionalitäten erweitert würden, letztlich aber in traditionellen Marktstrukturen verharrten und auf dieselben Formen von Konzentration und

Institutionalisierung hinausliefen. Es gibt mittlerweile allerdings auch Beispiele für neue Transaktionsformen, zu denen unter anderem Napster zählt: ein Index, der es individuellen Benutzern erlaubt, bei anderen Benutzern gespeicherte Musikdateien abzurufen bzw. die auf der eigenen Festplatte gespeicherten einem breiten Benutzerkreis zur Verfügung zu stellen.

Ein Konflikt besteht jedoch noch zwischen dem freien Austausch von Dateien und den Ansprüchen der künstlerischen oder intellektuellen Urheber. Wenn solche dezentralen „Peer-to-peer“-Netzwerke mit einem „Micro-Payment“-Bezahlsystem kombiniert würden, könnte sich ein ganz neuer Markt für kulturelle Produzenten entwickeln, der unabhängig von bisherigen traditionellen Vertriebswegen funktioniert.

Die Möglichkeiten der Distribution und des freien Austauschs kultureller und intellektueller Erzeugnisse, auch und gerade auf dem nicht-kommerziellen Sektor, die gleichzeitigen Nachteile der drohenden oder schon stattfindenden Überflutung mit globalen kulturellen Informationen, sowie die problematische (Rechts-)Situation beim Copyright waren Punkte der sich daran anschließenden Diskussion. Wobei festgestellt wurde, dass angesichts der leichteren und schnelleren Kopierbarkeit (im Vergleich zu etwa Büchern oder Musikkassetten) und Weiterverbreitbarkeit kultureller Produkte die Tendenz zu einer restriktiveren Handhabung des Copyrights geht (im Gegensatz zu einer denkbaren Anpassung der (Musik-)Industrie durch Erschließung neuer Wertschöpfungsquellen im Kontext ihrer Produkte).

Der den ersten Teil abschließende Vortrag von **Reinhold Grether**, „Blueprint for TOYWAR II - Von der Netzkritik zur Politik des Code“, zeichnete sich dadurch aus, dass er Entwicklungslinien der Internet-Praxis, -Politik und -Wirtschaft mit den Perspektiven genereller durch das Internet in Gang gesetzter Transformationen einer vernetzten globalen Kultur verband.

Grether geht davon aus, dass Vernetzung entscheidende Entwicklungsschübe und -vorsprünge erlaubt. Netzwissen ist die Ebene, die über das Reflexionswissen und das (technische) Anwendungswissen hinausgehend eine Verknüpfung verschiedener Wissens- und Anwendungsbereiche herstellt. Verschiedene Codes treten hierbei in Konkurrenz.

Die fortschreitende Vernetzung produziert aber einen Überfluß an Information bei gleichzeitigem Verlust ihrer Kontexte. Um Information bewirtschaften zu können, gibt es drei Strategien: Verknappung (als Beispiel wird das Domain Name System genannt), Individualisierung und informationelle Mehrwertbildung (z.B. durch Rekonstruktion des semantischen Umfelds, Entwicklung von Szenarien der Anwendung, Verkürzung des Zeitabstandes zwischen Information und ihrem Interessenten). „Muß die Information zudem zunächst erzeugt werden, treten die Theorie der Eigentumsrechte, die einen steileren Wissensproduktionspfad bei privaten Verwertungsrechten voraussagt, und die OpenSource-Theorie, die komparative Entwicklungsvorteile durch prestigegesteuerte Kooperationsketten erwartet, in offene Konkurrenz. Wahrscheinlich ist eine optimale Informationsproduktion und -distribution, die Informationen sowohl rasch erzeugt als verteilt, nur in einem ständig neu auszuhandelnden hybriden Mix aus Eigentumsrechten und Open Source und aus partieller Informationsbewirtschaftung bei weitgehendem freien Informationszugang erreichbar.“

Aus der aktuellen Situation heraus konstatiert Grether vier Forschungsagenda: 1. Die Wirkungsweise der „Gegendifferenzierung“ von Markt- und Geschenkökonomie; 2. Die Finanzströme und tatsächlichen Eigentumsverhältnisse im Kontext einer Verausgabung

von Mitteln in Hochrisikosektoren wie der Internetwirtschaft; 3. Die Beziehung zwischen antiinflationären Tendenzen in der Warenwirtschaft und galoppierender Wertpapierpreisinflation; 4. Die Abgrenzung von Dotcom- und Netzökonomie, wobei er unter Dotcom-Ökonomie die Übertragung klassischer Unternehmensstrukturen in den Netzkontext versteht, während die Netzökonomie ein wesentlich fließenderes System bilden kann.

Am Beispiel der Kampagne gegen den online-Spielwarenhändler „e-toys“, an der er selbst beteiligt war, zeigte Grether die Möglichkeiten auf, Marktmacht anstrebende Unternehmen im Internet mit ihren eigenen Mitteln zu schlagen. „Als typische, ins Netz verlaufene Dotcompany strampelten sie im Laufrad ihrer businessplanwirtschaftlichen Monologik, und fanden kein Rezept gegen die über sie hereinbrechenden Multilogiken des Netzes.“ Inner- und außerhalb des Netzes fand eine Strategieschlacht mit hunderten virtuellen Spielzeugkriegern, virtuellen Sit-ins und permanentem Mailbeschuss bei gleichzeitigen erfolgreichen juristischen Ausweichmanövern und geschickter Medienkampagne statt, die Zeit und Phantasie des Unternehmensmanagements schließlich überforderte und zum rapiden Wertverlust der Aktie beitrug.

Unter der Prämisse der offensiven Erschließung des Netzkontextes gegen seine Übernahme durch traditionelle ökonomische und legalistische Machtstrukturen formuliert Grether neun „Aktionsfelder einer progressiven Politik des Codes“: 1. Widerstand gegen ICANN als oberster Regulierungsbehörde des Internets; 2. Netzentwicklung zugunsten von Entwicklungsregionen; 3. Kampagne für die flächendeckende Einführung von Open-Source Software; 4. Globalisierung der Sprachenvielfalt; 5. Entwicklung von Peer-to-Peer-Architekturen; 6. Weiterentwicklung der Versionsvielfalt und interaktiven Spielräume im WWW. 7. Etablierung browserloser Netze; 8. Umwandlung von Mailinglisten in technisch avanciertere Kooperationsplattformen. 9. Aufbau technischer, medialer und sozialer Infrastrukturen virtuellen Protests.

Der zweite Teil der Frankfurter Tulipomania Dotcom Veranstaltung befasste sich u.a. mit dem Verhältnis von Internet-Ökonomie und Konsument, um dann die Perspektive auf die sozialpsychologischen Konsequenzen der neuen Informationsökonomie auszudehnen. In einem ergänzenden Referat wurde die Wechselwirkung von E-Commerce und lokalen Wirtschaftsstrukturen beschrieben,

Eric Kluitenberg fasste die Ergebnisse der Amsterdamer Diskussion zum Thema Rechte und Interessen von Konsumenten anhand verschiedener Punkte zusammen. Einer der problematischen Aspekte ist hierbei das Vertrauen der Konsumenten gegenüber den Anbietern bzw. ihren Vermittlungskanälen. Dies bezieht sich sowohl auf die Überprüfbarkeit der Qualität des Produkts oder der angebotenen Dienstleistung als auch auf die Sicherheit der Zustellung bzw. Erfüllung oder des Zahlungsvorgangs und auf die Möglichkeit zu Reklamationen etc.

Ein weiterer zentraler Punkt ist die Sicherheit von privaten Informationen. Hierin fallen einerseits die von im Internet aktiven Unternehmen erstellbaren Benutzerprofile mit den Möglichkeiten ihrer kommerziellen Weiterverwertung, andererseits die Sicherheit weitergegebener Kreditkarteninformationen. Probleme liegen auch in „Micropayment“-Systemen, bei denen die tatsächlich gerade getätigten Ausgaben dem Benutzer oft verschleiert bleiben.

Serviceleistungen sind z.T. sehr mangelhaft und können u.U. zu höheren Kosten als das Produkt selbst führen, im Extremfall kann mangelnde Qualität zu einem Gewinnfaktor

werden, indem sie die Servicekosten (teure, schlecht funktionierende Hotlines etc.) für den Kunden in die Höhe treiben. Hierzu kam jedoch der berechtigte Einwand, dass gerade aufgrund der Abhängigkeit von Kunden- und Investorenvertrauen jedes virtuelle Unternehmen durch schlechten Service oder Missbrauch von privaten Daten leichtfertig seine Existenz gefährden würde, und so etwas deshalb nur als Ausnahmefall gelten könne.

Im internationalen Kontext bestehen für den Konsumenten Unsicherheiten in seiner Rechtsposition, da bei wirtschaftlichen Transaktionen über das Internet unterschiedliche nationale Rechtssprechungen zur Geltung kommen können. Grundsätzlicher ist das Problem, dass die jeweilige Gesetzgebung im Zuge des internationalen ökonomischen Konkurrenzdrucks die Rechtsprechung zunehmend an die Interessen der Wirtschaft anpasst. Hier ist z.B. eine Verschärfung in der Regelung und in der Anwendung des Urheberrechts zu beobachten bzw. zu erwarten.

In einem sehr allgemeinen Sinne erscheint mit diesem Thema auch die Frage, weshalb die Nutzer des Internets zunehmend in die Rolle von Konsumenten geraten, während die Visionen, im Internet eine neue Gemeinschaft von (Welt-)Bürgern zu kreieren, immer mehr in den Hintergrund treten.

Den von Eric Kluitenberg aufgeführten Schwierigkeiten des Konsumentendaseins setzten Michael Pluznik und Dirk Siewert aufgrund ihre eigenen Erfahrungen und Kenntnisse als E-Commerce-Betreiber entgegen, dass eine Vielzahl der Probleme weniger von den Unternehmen in diesem Bereich, die sich Unzuverlässigkeit und schlechte Geschäftsmoral gar nicht leisten können, als von den Kunden herrührten. So sei der Anteil an Kreditkartenmissbrauch auf deren Seite wesentlich höher und stelle für die E-Commerce-Unternehmen tatsächlich ein großes Problem dar, insbesondere in den USA, wo zudem die Firmen juristisch auch leichter belangt werden können. Andererseits wiesen sie darauf hin, dass Unternehmen wie z.B. Amazon.com ihren Kunden über ihr Internet-Angebot auch eine Palette von Services anbieten, die etwa von einem traditionellen Buchhändler gar nicht geleistet werden können.

Im Verhältnis zu den vorangegangenen Beiträgen leistete **Helge Peukert** eine eher allgemeine kultur- und sozialgeschichtliche Analyse der Neuen Ökonomie. Einen Leitfaden bildeten hierbei die Untersuchungen der französischen Soziologen Luc Boltanski und Eve Chiapello in ihrem Buch „Le Nouvel Esprit du Capitalisme“.

Während in der Mainstream-Perspektive die neuen Entwicklungen positiv als in Richtung Autonomie, Freiheit, Abbau von Bürokratie, flache Hierarchien, Vollbeschäftigung (in den USA) und geringe Inflation, hoher Informationsstand bei preiswertem Informationszugang etc. gehend wahrgenommen werden, betrachten Boltanski und Chiapello den Kapitalismus als ein absurdes System, das die Unstillbarkeit von Bedürfnissen voraussetzt, ein System ohne Ziel, das gleichzeitig Reichtum und Armut produziert. Um dennoch zu funktionieren, bedarf es symbolischer Repräsentationen von allgemeinen Werten, sozialer Identität und Sicherheit etc., um die wirtschaftlichen Akteure weiter zu motivieren.

In Analogie zu dem von Max Weber konstatierten Zusammenhang zwischen Kapitalismus und Protestantismus destillierten die beiden Soziologen aus u.a. 60 Büchern der Managerliteratur eine neue *Metaphysik* des Netzwerk-Modells, die Fähigkeiten und Leistungen von Anpassung, Wechsel, Flexibilität, Teamwork, Kommunikation, Mobilität etc. in den Vordergrund stellt, Prinzipien, die die früheren Konzepte von Hierarchie und Autorität ersetzen. Heute sind Individuen gefordert, im Berufs- wie im Privatleben eine Vielzahl unterschiedlicher temporärer „Projekte“ zu realisieren. Persönliche Bedeutung bemisst sich

an der Anzahl der Aktivitäten und Kontakte und an der Einbindung in aktive Netzwerkstrukturen. Dabei werden wechselnde und unterschiedlich ausgerichtete Projekte jeweils mit dem gleichen Enthusiasmus begleitet.

Neben der Akkumulation von sozialem Kapital besteht die Aufgabe darin, sich in unterschiedliche Netzwerkstrukturen integrieren zu können. Am erfolgreichsten sind diejenigen, die in der Lage sind, den Unterschieden gegenüber indifferent zu bleiben. Dafür wird ein charmanter, autonomer, flexibler, kommunikativer, aber auch opportunistischer und „leichter“ Charakter benötigt, als Voraussetzung, um das hohe Volumen disparater Informationen verarbeiten zu können. In einer komplexen und multiperspektivischen Welt ist eine starke Wertorientierung eher hinderlich. Den innovativen Aspekten des Projekt- und Netzwerk-Modells steht ein individueller und sozialer Preis, der dafür zu zahlen ist, gegenüber.

Auf der sozialen und ökonomischen Ebene entsteht durch das Auseinanderfallen der gesellschaftlichen und ökonomischen Akteure in „Flexible“ und „Unflexible“ eine neue Form der Ausbeutung, „Flexploitation“ (Bourdieu), und gesellschaftlicher Hierarchien. Die flexiblen Bereiche in Gesellschaft und Wirtschaft bedürfen praktisch der unflexiblen Bereiche, um ihre Vorteile ihnen gegenüber ausspielen zu können. Dadurch bilden sich auf verschiedenen Skalen Abstufungen heraus, z.B. zwischen internationalen Finanzmärkten, multinationalen Konzernen, nationalen und am unteren Ende lokalen Wirtschaftsstrukturen.

Gleichzeitig entstehen aber auch Probleme auf der Seite der flexiblen Netzwerker selbst: der Druck, den Informations- und Kommunikationsstand ständig zu aktualisieren und zu erweitern, die Notwendigkeit, sich immer wieder über verschiedene Projekte neu in seiner Autonomie zu definieren etc., wobei die vielfachen Kommunikationsanforderungen in einen kaum auflösbarer Widerspruch zwischen notwendiger Anpassung und Oberflächlichkeit und gleichzeitigem Bedarf an persönlicher Authentizität führen.

So diagnostiziert Peukert die andere Seite eines wirtschaftlich vielleicht Erfolg versprechenden Modells des flexiblen und vernetzten Agierens im Verlust an kultureller Identität, emotionalen Bindungen und zweckfreier sozialer Beziehungen, also letztlich jener humanen Bereiche, die außerhalb ökonomisch definierter oder geprägter Identitäten liegen.

Peukerts polarisierende Thesen provozierten natürlich Kommentare und Widerspruch von verschiedenen Seiten. So argumentierte Felix Stalder, dass die exponentielle Informationsvermehrung schon lange Zeit stattfindet, ohne dass man daraus eine allgemeine Tendenz zu Charakterschwäche herleiten könne. Da die Aufnahmekapazität begrenzt sei, werde die zur Verfügung stehende Information eben stärker selektiert. Der These von einer Ausbeutung der Unflexiblen durch die Flexiblen hielt er entgegen, dass je mehr Flexible es gebe, die Qualitäten der Unflexiblen (Werte, soziale Beziehungen) an Bedeutung und Wert wieder gewinnen und insofern die zwei Modelle eher in einer Komplementarität zu sehen seien.

Zur Informationsüberflutung merkte Geert Lovink an, dass z.B. die Tendenz, e-mails nicht mehr zu lesen, sie einfach zu ignorieren und wegzuschmeißen, eine durchaus adäquate und kreative Gegenstrategie sein kann, um den die persönliche Autonomie zunehmend einschränkenden Verpflichtungen durch die Netzkommunikation zu entgehen.

Peukert beharrte dennoch auf der Frage, ob es wirklich vernünftig sei, mehr und mehr Information zu produzieren. Ein höheres Informationsvolumen bei begrenzter Aufnahmekapazität kann nur bei größerer Oberflächlichkeit der Informationsaufnahme bewältigt werden. Produziert man dann selber weitere Informationen, setzt sich diese Oberflächlichkeit im eigenen Informationsoutput weiter fort. Zudem untergräbt die Informationsvermehrung sich selbst, denn wird persönliches Wissen am Verhältnis zum allgemein verfügbaren Wissen gemessen, werden die Individuen in der Informationsgesellschaft zwangsläufig zunehmend dümmer. So kann ein einfacher Farmer durchaus klüger sein als der typische Großstadtintellektuelle, weil er den Zusammenhang der Informationen, mit denen er zu tun hat, wesentlich genauer einschätzen und in seinem Handeln umsetzen kann.

Für Michael Pluznik liegt Peukert mit seinen Einschätzungen und Wertungen grundsätzlich falsch. Ihm scheint es absurd, die Entwicklung der Informations- und Wissensverbreitung, die mit Gutenberg ihren Anfang nahm, nun zurückschrauben zu wollen. Das Mehr an Information bedeutet auch ein Mehr an bewußter Auswahlmöglichkeit, das nicht dümmer, sondern klüger macht, und tatsächlich nehmen die Menschen die Informationsvielfalt auch als etwas für sie Nützliches wahr. Man passt sich an, aber in der Weise, dass heute z.B. aus 25 und woanders 250 TV-Programmen das Interessanteste herauspicken kann, ohne damit seinen Gesamt-Fernsehkonsument ausdehnen zu müssen. Auch e-mails müssen nicht alle beachtet werden, aber die wichtigen kann man erkennen und beantworten, und durch sie bleibt man mit den Personen, die einem wichtig sind, in viel direkterer Verbindung als dies vorher möglich war.

Aus dem Publikum wurde die Frage aufgeworfen, ob die „Flexploitation“-Phobie nicht ein typisches Phänomen einer europäischen intellektuellen Elite sei und in welcher Weise in Europa auch „exoterische“ Kommunikationsmodelle der amerikanischen Art adaptiert werden könnten, die einen unbefangeneren Gebrauch der vernetzten Kommunikation praktizierten. Douglas Henwood hielt dem entgegen, daß man die amerikanischen Verhältnisse nicht idealisieren solle. Das Niveau der öffentlichen Kommunikation und des politischen Diskurses sei extrem niedrig, die offenkundigen Missstände würden gleichzeitig aber auch niemanden interessieren. Entscheidende Untersuchungen und Diskussionen finden in geschlossenen Think Tanks der Elite-Universitäten statt und erreichen die Öffentlichkeit praktisch nicht. Natürlich bestehe ein Zusammenhang zwischen Flexibilität und Steigerung der Dynamik in der amerikanischen Wirtschaft, auf der anderen Seite sei das System aber auch sehr starr und konservativ in Hinblick auf Verteilung von Privilegien, Besitz- und Machtverhältnissen und biete am unteren Ende der Skala einen großen Bereich niedrig bezahlter und unsicherer Arbeitsverhältnisse.

Noch einmal auf die Parallelisierung von wachsender Informationsmenge und wachsender Oberflächlichkeit in ihrer Verarbeitung zurückkommend, wies Eric Kluitenberg auf Formen des Filterns und der Kontextualisierung als Ausweg aus dem Dilemma hin. Hier gebe es die Alternativen, sich öffentlicher Informationsangebote oder des Medienmarktes zu bedienen oder auch kollaborative Zusammenhänge in Form von Foren oder Mailinglisten zu bilden, die diese Funktion übernehmen können. Die Gleichung mehr Information = mehr Oberflächlichkeit sei weniger interessant als die Frage, wie diese Mechanismen des Filterns und der Kontextualisierung von Information herausgebildet werden können, was auch die Voraussetzung dafür wäre, den großen Informationsmonopolen etwas entgegensetzen zu können.

Michael Gursteins abschließender Vortrag über „E-Commerce and Local Development“ rückte die vorausgegangenen Diskussionen noch einmal in eine Art Außenperspektive. Sein

Erfahrungshintergrund ist u.a. ein mehrjähriger Aufenthalt in einer kleinen, abgeschiedenen Gemeinde an der Küste von Nova Scotia im Norden Kanadas, die keine Probleme mit Informationsüberflutung und fragmentierten Identitäten etc. hat, von den Transformationen des globalen Wirtschaftsystems aber gleichwohl betroffen ist. Welche Auswirkungen hat die New Economy in einem solchen Kontext?

Generell, so Gurstein, stellt E-Commerce eine Konkurrenz für lokale Wirtschaftsstrukturen dar. So findet eine generelle Verlagerung des Schwerpunkts der wirtschaftlichen Aktivitäten in Zentren mit höheren Qualifikationsstandards statt, was in den lokalen, am Rand gelegenen Kontexten zu einem Verlust an Wirtschaftskraft führt. Andererseits treten E-Commerce-Unternehmen aktiv in Konkurrenz zu lokalen Geschäften, die in der Breite des Angebots nicht mithalten können und deshalb Kunden verlieren. Ihrerseits haben sie wegen der steigenden Kosten kaum selbst Eintrittsmöglichkeiten in den E-Commerce-Bereich. Neben dem Warenangebot werden insbesondere Informationsdienstleistungen zunehmend über das Internet abgewickelt, was den ökonomischen Spielraum der lokalen Anbieter von den lokalen Medien bis hin zum Erziehungs- und Bildungssystem betrifft und zu einer weiteren Ausdünnung des intellektuellen Kapitals zu führen droht. Trotz der scheinbaren Unabhängigkeit von geographischen Orten bildet sich so auch im Cyberspace ein unterentwickelter „Süden“ heraus.

Diesen Tendenzen gegenüber steht die Frage, ob ICT nicht auch umgekehrt zum Nutzen der lokalen Wirtschaftsstruktur eingesetzt werden kann, z.B. in der Verbesserung von Produktionsabläufen, als Basis für die Entwicklung neuer Geschäftsmodelle, als Medium, um an größeren Netzwerken zu partizipieren. Ein besonderer Umstand ist, dass in abgelegenen Regionen oft – wegen des verbreiteten Mangels an benötigten liquiden Mitteln – eine Art Ersatzwährung benutzt wird und hier ist ein System entwickelt worden, „LETS“ (Local Exchange Trading System), das es erlaubt, diese Ersatzwährungen auch außerhalb des lokalen Rahmens zu verwenden.

Ein weiteres Beispiel der Nützlichkeit des Internets auch für einen marginalen lokalen Wirtschaftsraum ist die Möglichkeit, das u.U. reiche kulturelle Kapital der Gegend in einem größeren Zusammenhang zugänglich zu machen. So berichtete Gurstein z.B. von der Einrichtung einer sehr erfolgreichen Mailingliste zu den speziellen an seinem damaligen Wohnort gepflegten Musiktraditionen, die die Interessengemeinschaft an diesem Kulturgut über den lokalen Kontext hinaus wesentlich erweiterte und zur Organisation von Festivals etc. führte.

Im Ergebnis geht es im Verhältnis zwischen Internet/E-Commerce und lokalen Strukturen darum, der wirtschaftlichen und kulturellen Auszehrung durch die zunehmende Zentralisierung globaler ökonomischer Aktivitäten aktiv und mit staatlicher oder anderer externer Unterstützung durch Herausbildung eigener Möglichkeiten der nutzbringenden Anwendung der Informations- und Kommunikationstechnologien entgegenzuwirken.



Max Bruinsma
Chris Keulemans

Tot hun eigen verbazing lezen steeds meer kunstenaars, cultuurcritici en anderen, die vroeger alleen bij de kapper betrappt werden op het doorbladeren van de beursberichten, nu de economiekaternen van dag- en weekbladen alsof hun leven ervan af hangt. Die nieuwe belangstelling van 'cultuurdragers' voor zoiets banaals als de wereld van het geld heeft minder met nieuwsgierigheid te maken dan met noodzaak. Wie dezer dagen de ontwikkelingen op het gebied van de nieuwe media wil bijhouden - en voor veel cultuurmakers is dat steeds belangrijker - kan er niet omheen; het nieuws over nieuwe media staat op de economiepagina's.

Eigenlijk is het verbazingwekkend dat de discussie over bijvoorbeeld de mogelijke opsplitsing van Microsoft niet ook wordt gevoerd in de culturele supplementen. Het is immers duidelijk dat een applicatie als Windows niet alleen economische, maar ook diepgaande culturele gevolgen heeft gehad. Over het laatste wordt alleen opvallend weinig geschreven. Het gaat over de spullen (Breedband mobiele telefonie! Interactieve tv! Online personal assistants!), en over wat dat ons gaat kosten, maar minder over wat we daarmee gaan doen, en hoe die technologie onze culturele interacties gaat beïnvloeden. Wordt de burger mondiger van al die technologie, of wordt hij steeds meer in de rol van passieve consument gedrongen, bestookt door een zich explosief uitbreidend netwerk van koopimpulsen? De aandacht voor de culturele implicaties van technologische ontwikkelingen staat in geen verhouding tot die voor de economische aspecten ervan.

Staatssecretaris van Cultuur Rick van der Ploeg constateerde onlangs iets vergelijkbaars. "Technologische zaken worden doorgaans gekaapt door het economische departement, door de technocraten. Het is de vraag of ze daar wel zo exclusief thuis horen; kunstenaars en andere creatieven zouden evengoed de drijvende krachten op dit gebied kunnen zijn." Hij zei dit vorige week vrijdag in De Balie in Amsterdam bij de opening van een congres over de 'nieuwe economie', 'Tulipomaniadotcom'. Dit congres was nu eens niet georganiseerd door marktanalisten en vertegenwoordigers van start-ups en dotcoms, maar door de cultuurcritici en net-activisten rond Nettime, een internetforum dat de maatschappelijke, culturele en politieke effecten van nieuwe technologie kritisch volgt.

Is het toeval dat dit het tweede congres binnen enkele weken was over aspecten van de 'nieuwe economie' waarop de jonge culturele digerati uit Europa en Amerika afkwamen? Een maand geleden zaten ze in Berlijn, bij 'Monomedia'. Die conferentie was georganiseerd door Willem Velthoven, directeur van webdesign consultancy Mediamatic in Amsterdam en sinds vorig jaar professor Multimedia aan de Hochschule der Künste in Berlijn. Thema: value, in de culturele en de economische betekenis van het woord. 'Het is misschien geen aantrekkelijk vooruitzicht temidden van websites te leven,' zei Velthoven tegen een zaal vol jonge webdesigners, mediatheoretici en kunstenaars. 'Maar die kant gaat de maatschappij op, en veel van de mensen hier zijn daar medeverantwoordelijk voor. Wij veranderen elke dag de wereld met ons werk. Als we een website maken voor de stad waar we wonen, ontwerpen we de politiek en de gemeenschap opnieuw. Elke e-

commerce site is het herontwerpen van handel. En elk intranet dat we aanleggen is een herontwerp van arbeid.'

Daarmee liggen de kernvragen voor de cultuur-politieke avant-garde op tafel. Wat Velthoven beschrijft heeft diepgaande culturele implicaties, maar het discours speelt zich vrijwel uitsluitend af in termen van economie. Robin Hanson, een econoom die in Berlijn straalde alsof hij net met helium was ingespoten, beweerde met genadeloze opgewektheid dat iemand zijn bijdrage aan de samenleving pas kwijt kan als hij hem op de markt weet te zetten. En hij zei nog iets: geld maakt eerlijk. Mensen voor wie er niets op het spel staat hebben makkelijk praten, maar iemand geeft pas echt zijn mening als hij er geld mee kan verdienen - of verliezen. Daarom stelde Hanson een nieuw systeem voor: Futarchy, Government by Bets. Mensen zetten echt geld in op de koers van lastige besluiten als gun control en de interventie in Kosovo. De markt beslist: de optie die het verstandigst is voor de markt wint. Een vanuit democratisch oogpunt bizar aspect van dit 'weddenschapsmodel', is dat hoe kleiner de minderheid is, die van de markt gelijk krijgt, hoe meer die aan zijn gelijk verdient. Hanson liet zich niet door dergelijke details afleiden; het succes van zijn model in de nieuwe economie van venture capital en dagjeshandelaren, waar investeringen in technologische ontwikkeling inderdaad steeds meer op a day at the races gaan lijken, was hem genoeg.

In Amsterdam, bij Tulipomania, legde de Maastrichtse econoom Robin Cowan uit hoe die nieuwe economie werkt: "Kennis is moeilijk te produceren, maar zeer gemakkelijk te reproduceren. Wanneer kennis een product wordt, zoals in de meeste software, betekent dat dat degene die het eerst op de markt is, de hele markt heeft. De 'new economy' is een 'winner-takes-all' economie, waarin investeren zeer hoge risico's draagt, en onderzoek en ontwikkeling een soort loterij wordt: wie het eerst klaar is, heeft de jackpot." Dat is natuurlijk niet helemaal waar - zie Netscape: de eerste, de beste, de verliezer -, maar wat er van waar is, heeft duidelijk maatschappelijke en culturele gevolgen. Het feit dat de kans op snelle en grote winst vergaand is gedemocratiseerd, en de beurs voor iedereen met wat spaargeld toegankelijk is geworden, betekent nog niet dat iedereen mee profiteert. Dat volkskapitalisme leidt intussen tot een economisering, en daarmee een versmalling, van het maatschappelijke en culturele debat. Welke waarden vertegenwoordigen we nog als, om Lucebert te parafraseren, alles van waarde meetbaar is geworden? Is het enige antwoord op de vraag hoe de overheid de beperkte ruimte in de ether voor breedband mobiele telefonie inricht: 25 miljard gulden? De obsessie met de krankzinnige winsten die in de nieuwe economie gemaakt kunnen worden vertroebelt de blik op wat werkelijk van waarde is. Steve Cisler, schrijver en internet analist uit Silicon Valley, merkte in Amsterdam op: "In de overspannen economie, waar de keerzijde van zeer hoge winsten zeer hoge risico's zijn, trekken alleen gebieden met de hoogste winstverwachting de investeringen aan. Gebieden als onderwijs, cultuur en zorg, waar dat niet zo is, blijven achter."

Pijnlijk komt die achterstand aan het licht als je de bedragen die in de ontwikkeling van technologische infrastructuur worden geïnvesteerd vergelijkt met die in de culturele benutting en verdieping daarvan. Op de dag na het congres in Berlijn verschenen de adviezen van de Raad voor Cultuur. Op het gebied van de nieuwe media stellen ze, ondanks mooie voornemens, teleur. Het centrumdenken, in instituten en collecties, wint het nog steeds van het begrip voor de middelpuntsvliedende, meanderende aard van de digitale cultuur. Natuurlijk is de waardering voor instituten als de Waag, Montevideo en V2 volkomen terecht, maar verder is er weinig winst. Niemand gaat er veel op vooruit en ook de fondsen die incidentele subsidies te verdelen hebben - Mondriaan Stichting, Nederlands Fonds voor de Film en het Fonds voor Beeldende Kunsten, Vormgeving en

Bouwkunst - blijven in budget gelijk. Ondanks lippendienst aan de uit 'het veld' gehoorde roep om ondersteuning bij digitale presentatie en informatievoorziening is er nauwelijks werkelijke steun voor een technologische inhaalslag van de cultuur. De hierboven geciteerde staatssecretaris Van der Ploeg beraadt zich over de vraag of er 35 miljoen bij kan. Minder dan anderhalf promille van wat alleen al die telefoonfrequenties ons gaan opleveren!

Maar ja, cultuurmakers zijn het gewend op een houtje te bijten. Het romantische idee dat kunstenaars hun grootste beloning zouden vinden in het blote feit dat ze kunst maken, ongeacht of ze daarvan kunnen leven, is niet alleen onuitroeibaar, het veroverd in sneltreinvaart terrein. Een keerzijde van de snelle rijkdom van een toplaag in de succesvolle dotcoms is de verslechtering van de werkomstandigheden in de aan de nieuwe technologie verbonden bedrijfstakken. Tachtig-urige werkweken zonder overwerktaarif tegen een uurloon dat ruim onder dat van vergelijkbare bedrijfstakken in de 'oude economie' ligt, kenmerken het werk in de 'webshops' van de nieuwe media, de websitefabrieken en callcenters die de massaverplaatsing van informatie en goederen via het internet mogelijk maken. Econoom Andrew Ross, van New York University, onderzocht het en concludeerde: "Het lijkt erop dat oude, 'zelfopofferende' tradities van arbeid, gebruikelijk bij kunstenaars, schrijvers en academische onderzoekers, snel oprukken van de marges van de productieve economie - de 'bohème' en de 'ivoren toren' - naar de centrale sectoren van de informatie economie." Hij bedoelt te zeggen dat het culturele model van de uitgemergelde maar bevlogen artiest nu wordt ingezet om 'kennisarbeiders' te overtuigen dat ze cultuurmakers zijn, voor wie een hoge roeping en een vrije, ongebonden levensstijl moeten opwegen tegen slechte werkomstandigheden en onderbetaling.

Als er, intussen, in de new economy al sprake is van 'cultuur', wordt daar iets heel anders mee bedoeld dan wat vooral Europeanen die zich de tijd 'Ante Internet' herinneren ermee bedoelen. In de nieuwe economie is 'cultuur' synoniem geworden met brand identity. Elk merk probeert zijn eigen, duidelijk te onderscheiden 'cultuur' uit te dragen, in de wetenschap dat merkentrouw, brand loyalty in het jargon, tot hechte gemeenschappen van betrouwbare consumenten leidt. Dat jargon, dat identity consultants gebruiken om de positie van hun opdrachtgevers te versterken, is vaak rechtsstreeks afkomstig uit de ethnologie en antropologie. Men heeft het over 'bedrijfscultuur' en cultural engagement, een vorm van communicatie die aansluit bij een gedeeld cultureel begrip. Corinna Snyder, van huis uit antropoloog, nu manager bij een van de snelstgroeiende internet consultancies, Razorfish, deed tijdens Tulipomania aan zelfkritiek: "Wat bedoelen consultants als ze de interactie van klanten met de website van de Chase Manhattan Bank een cultural engagement noemen? Ze gebruiken het vocabulaire van de culturele analyse, maar niet in de oorspronkelijke kritische zin. Ze bedoelen niet dat ze op het punt staan de machtsstructuren en betekenissystemen uit te pluizen die inherent zijn aan een massieve financiële institutie... ze noemen het 'culturele uitwisseling' om er een gevoel aan toe te schrijven. Cultureel betekent hier in feite dat we aan de macht helemaal geen aandacht hoeven te besteden."

De economie is de cultuur aan het koloniseren. Eenvoudige economische modellen worden op veel complexere culturele en maatschappelijke processen gelegd. Jargon uit de culturele analyse wordt gekaapt om eenzijdige marktproposities het cachet te geven van ingewikkelde sociale en culturele interacties. Intussen lijkt de economisering van wat vroeger het 'publiek domein' heette onafwendbaar. De vrij toegankelijke ruimte waar de deelnemers aan een cultuur samenkwamen om die zowel te ervaren als te vormen - de agora - is een markt geworden. Maar cultuur is een wisselwerking die aanzienlijk subtieler

en multilateraler werkt dan de 'interactie' tussen producent en consument. Deelnemers aan een cultuur zijn niet eenvoudigweg te vergelijken met kopers en verkopers. Uiteindelijk raakt de kolonisering van het culturele domein door de economie aan de wortels van de democratie. Zoals de relatie tussen kunstenaars en publiek meer behelst dan een transactie, zo is de verhouding tussen consumenten en producenten een fundamenteel andere dan die tussen de burger en zijn afgevaardigde. Wanneer de democratie volgens economische modellen wordt ingericht, verandert de dynamiek van checks and balances diepgaand... Hanson's model van government by bets is daarvoor het bewijs uit het ongerijmde. Diverse sprekers in Berlijn en Amsterdam gingen min of meer vanzelfsprekend uit van de nieuwe economische conditie. Maar zelfs de cyber-communist Richard Barbrook stelde niet de hamvraag: overleeft de democratische cultuur zijn eigen economisering?

Steeds meer kritische mediadenkers stellen zich zulke vragen wèl, bij de kolonisering van 'hun' terrein, de cultuur, door het economische denken. Ze lezen de Financial Times en de Wall Street Journal om zich te wapenen tegen suits die zelfs bij de kapper niet met een cultureel tijdschrift betrappt zullen worden. In dat internationale netwerk bevinden zich opvallend veel Nederlanders: Geert Lovink, Rop Gonggrijp, Andreas Broeckmann, Marleen Stikker, Eric Kluitenberg, Arjen Mulder, Dick Rijken, Caroline Nevejan, Dirk en Willem van Weelden. Beeldvaardige optimisten in een staat van permanente scepsis. Niet bang voor het bedrijfsleven, overtuigd van de mogelijkheden die de individuele gebruiker van het internet heeft om binnen en buiten de commercie te werken aan nieuwe vormen van netwerk en gemeenschap. Moordend eigenwijs en altijd bezig alternatieven aan te dragen voor wat de markt te bieden heeft. Ze zien hoe de verantwoordelijkheid van de 'cultuurmaker', dat wil zeggen: zo ongeveer iedereen die een online omgeving helpt veranderen, met de dag toeneemt. In de papieren wereld kom je ze veel te weinig tegen, en de bijeenkomsten die ze organiseren lijken vaak op, zoals media activist en organisator van tulipomania Geert Lovink het uitdrukte, 'views from inside the network'. Ze verspreiden hun essays via websites en mailinglists, niet via de krant, omdat de taal van de digitale wereld daar vaak weerstand oproept. Een paar jaar geleden, toen het verschil tussen gebruikers en niet-gebruikers van internet en nieuwe technologie nog duidelijk was, lag niemand daar wakker van. Nu iedereen het internet bezoekt is het een pijnlijke scheiding der geesten. De vragen die in Berlijn en Amsterdam gesteld werden gaan niet alleen de digerati aan. Ze raken de kern van onze cultuur.





Valley Trends: The Best and Worst Valley Trends

by **Mark Bronder**

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<http://www.upsidetoday.com/texis/mvm/opinion/story?id=3856a8340>

On one hand, I think Silicon Valley is the most exciting and creative business community on Earth. There is no question that the Valley has become the headquarters for the new economy. I expect the excitement to continue for years, thanks to the Internet explosion that is changing the Valley as we know it.

On the other hand, there are several trends that piss me off. Below, I offer my very own list of the best and worst trends that I've observed in Silicon Valley.

BAD TREND: "Me-too" companies. With the Internet gold rush, there are often ten startups trying to do the same thing, many of them funded by top venture capitalists and angel investors who should know better. Despite all of the fawning over venture capitalists in the media and all of the money they make, most VCs are sheep, dude.

Just as an example, there are at least a dozen companies creating Web sites to help customers select the best digital camera, computer, car, or cell phone based upon the customer's needs. A noble pursuit, but it's not clear that any one of these companies can survive as a stand-alone success.

And how many search engines do we need? We had the first wave with Yahoo, Lycos and Excite. There have to be more than 20 like those. Then we got another wave of natural language-type plays with Ask Jeeves, Northern Light, Direct Hit and Google. Now there is yet another wave brewing, including companies like Octopus, which can be best described as MyYahoo on steroids. In other words, highly personalized search engine home pages. Can all of these companies be successful in the long run? Of course not.

Then again, can you blame people for trying, given Yahoo's \$90 billion market cap or Ask Jeeves' \$3.5 billion market cap? Also, the history of high tech shows what can happen to the market leader who sits on its laurels and watches the world go by. Think VisiCalc, Lotus 123, WordPerfect, dBase, etc. Nobody can coast anymore. As Sun CEO Scott McNealy says, "If you're looking for a strategy which will allow you to knock off at 3 p.m. everyday to go golfing, you ain't going to find it."

GOOD TREND: Sharing the wealth. Ordinary schmucks like you and me can get rich in Silicon Valley if we hook up with the right company. In most of the rest of the world, only people at the very top get the big bucks while everybody else is a wage slave watching the clock tick by until age 65. Thanks to stock options, regular Joes and Janes right down to the lowest level in the organization can get a taste of the good life and security; maybe even retire while they still have a pulse. It's capitalism at its finest.

BAD TREND: Everyone wants a cut. It used to be in Silicon Valley that accounting firms, law firms, and even landlords would give startups a price break. The idea was to establish a relationship with a startup early in its life cycle in order to reap benefits as it matures.

That table has turned in a hurry, however, with the flurry of Internet startups. Now accounting firms, law firms, and headhunters are out of capacity, and office space is a scarce as a suit and tie in the Valley. Today everyone, right down to the landlords, want warrants or options over and above their now fully priced services. Note to entrepreneurs: Screw 'em! Don't give in to this scandalous piracy. Seek out those lawyers, accountants, headhunters, and landlords who just want to get their normally usurious remuneration. Or, only give them warrants in exchange for a proportional reduction in fees.

By the way, rents on the Peninsula now routinely exceed prime Manhattan property. Rents on Sand Hill Road are the highest in the nation at \$9 per square foot per month. Do the math. Even a modest office for a couple of professionals and an admin can cost \$100K per year.

GOOD TREND: Angel investors. God bless 'em. Angels are older (usually), successful, wealthy former entrepreneurs and executives who help younger (usually) entrepreneurs realize their dreams. The angels do this by investing their own money in startups at the earliest stages, and then helping guide those startups towards success. It's a great apprenticeship model. In the old economy, these angels would still be occupying top slots in big corporations where they would be doing their damndest to maintain their power base by suppressing the same up-and-comers they now help along.

BAD TREND: Tech stocks are outrageously overheated. This is not news to anyone reading this story. In defiance of all historical stock market logic, price-to-earnings ratios (assuming there is an "e") and now even price/sales ratios look like area codes. Obscure companies still in diapers with minimal revenues and no profits are commanding market caps higher than well-established and profitable Fortune 500 corporations with household names. Though I've benefited personally, I've got to say this is nuts.

Yes, the market has been tested, if not tempered, by several corrections in the last couple of years. One could argue that the market is so fluid right now that bad companies get flushed out independently of mass corrections. But you and I both know that this cannot last. How will it end? If this market crashes, I'm afraid the ripple effect could be very ugly indeed.

Don't get me wrong. Regardless of what the market does, the new economy will continue to happen. There is no stopping the Information Age. For the most part, the Internet is still operating on dirt roads. Imagine what will happen when broadband becomes commonplace.

GOOD TREND: Failure is not punished. One of the great things about the Valley is that people are given several chances to succeed. Joined a loser startup that folded? Hey, we understand. At least you gave it your best shot. Here's an offer for more dough and options.

BAD TREND: The public is in the venture capital business. I worked for a top tier VC firm in the 1980s . Back then, a company had to have revenues of at least \$20 million per year, plus have been profitable for a few quarters before it would be allowed to go public. Today, companies are going public at billion-dollar valuations with as little as one or two million in revenues. Forget profitability. All of this puts the public in the high-risk venture capital business.

Believe me, most startups created in the last year or two, both public and private, will eventually fail outright or get absorbed into other companies at bargain basement valuations. A VC friend of mine says, "It's not for us to reason why. We just feed the machine [i.e. the stock market] what it wants." I'm sure he speaks for the fee-hungry investment banking community as well.

GOOD TREND: People get real responsibility earlier in their careers. I'm on the board of a startup with several very sharp, freshly minted Stanford MBAs all around 30 years old. In years past, they would have joined management consulting firms, investment banks, or big corporations. In all of these jobs, they would have put in tedious long hours pushing around columns on Excel spreadsheets or polishing PowerPoint presentations. They would have endured an extended hazing period without much real responsibility or impact, while waiting for their chance at bat (though one can make a hell of lot of money at an early age in investment banking, if one makes the cut).

Compare that to what's happened with my guys. They have genuine, broad top management responsibilities in a real company of their own creation at the time of their lives when they are at their peak in terms of energy, willingness to put in the long hours and ability to take risks. Believe me, I worked for a top-tier management consulting firm when I was their age and this is a vast improvement both for them and for the economy.

BAD TREND: Wacky business models. I guess I'm tired of seeing business plans with 13 tiny sources of revenue, or reverse auction pricing, or aggregated buying power. Spare me. The emergence of the Internet does not mean that basic business conventions have to be reinvented. As a consumer, I don't want to play guessing games to get an airline ticket.

GOOD TREND: Size doesn't matter. For most of the 20th century, the conventional wisdom has been that bigger is better. It was held that large corporations, through economies of scale and vertical integration, were the paragons of efficiency. Anyone who has ever worked in a huge corporation knows the fallacy of that. Big companies can be a nightmare of endless meetings, group thinking and glacial progress.

Recent developments have changed minds regarding the "bigger is better" myth. First, the Japanese showed how lean production, which relies more heavily on outside designers and suppliers, beats traditional mass production and vertical integration on cost, time-to-market and quality. Second, Silicon Valley has shown that in technology, size is a disadvantage. Lightweight virtual corporations populated by highly motivated employees with meaningful stock options can run rings around the behemoths. Today, it's more important to be fast than big.

BAD TREND: Consumer-oriented companies run by techies. Here's the situation. The venture money is in Silicon Valley, as is the technical talent and the infrastructure. So, many of the business-to-consumer Internet e-commerce companies based their companies in the Bay Area. However, much of the consumer marketing talent is in New York, Cincinnati, Chicago and Minneapolis.

One result is a plethora of bland company names such as (I made these examples up) stuff4sale.com and mywheelweights.com. If these guys operated in the traditional world, Chevron would be called MyGas, and Safeway would be called Grocery Building.

Vcs have begun recruiting consumer marketers from other parts of the country. Unfortunately, some of these people hail from a different planet. One recently transplanted executive doesn't know how to send a fax. That's what secretaries are for, don't you know. And, this new CEO also wants to write up position descriptions as part of bringing some of that much needed big company structure to this little startup. Talk about the blind leading the sighted. That's all Silicon Valley needs: bureaucracy.

GOOD TREND: Computing is finally paying off. We have low inflation, low unemployment, low interest rates, high growth, budget surpluses, and a stock market that has been on fire for several years. Think this is all the result of Bill Clinton's fine leadership? Think again.

We're finally reaping the benefits of increased productivity due to the computer revolution. And, the end is nowhere in sight. The economy is getting reinvented right now. We have a chance, among other things, to rip an entire tier out of what is already the most efficient distribution system in the world.

Of course, inflation only appears low at a national level. One need only look at burgeoning salaries and home prices in Silicon Valley to realize that we're experiencing high inflation here.

BAD TREND: Too much IPO focus. I've heard from several people out looking for a new job that Topic One at most startups is the IPO. One company even pegged its IPO at a particular date nine months from now, as if there is that much certainty in a high-growth startup and a highly volatile stock market. The IPO is a beginning, not an end. Anyway, between vesting, lockouts, and trading windows, most employees won't enjoy the fruits of the IPO for several quarters, if not years. The focus of a startup should be on building the business. If the business is successful, the rewards will take care of themselves.

GOOD TREND: The best people go to startups. It used to be hard to attract people to startups. Salaries were low, while risks and hours were high. Now I'm often truly knocked out by the quality of people who rush to join a startup. Big companies must be tearing their hair out trying to recruit and keep good employees. How ya goin' to keep 'em down on the farm after they've seen Paris?

BAD TREND: People shortage. If you're looking for a job right now, it's a seller's market. Anyone with any kind of chops at all can snare multiple offers. Fact is, the talent pool here is getting pretty shallow. If you live somewhere other than the Bay Area and you've got something to offer the world of high tech, pack your bags. Sure the cost of living is outrageous, but this is the best gold rush you're ever going to see in this lifetime.

GOOD TREND: Every startup is a United Nations. People from all over the world come to Silicon Valley to strike it rich and to make a difference. One startup I visited has the home country flags of its employees on the wall. I counted over a dozen flags in a company with 40 employees. All of this internationalism only reinforces the fact that Silicon Valley is a meritocracy. If you have the right stuff, you can succeed.

GOOD TREND: Everybody is a businessman. I spoke to a management consultant from Seattle recently. He said that there is a fairly large drain of middle level talent from Microsoft. Seems once people get \$5 million to \$10 million in the bank from their stock options, they want to strike out on their own. The problem, he said, is that these people are much more naïve about business than their counterparts in Silicon Valley. Why?

They've spent their entire careers in Microsoft, sheltered from the real world and with no view of the big chessboard.

I met another fellow who has worked as CFO at a couple of biotech startups. He said that more than once at these startups, the board recruited CEOs who had spent 20 years or more at large pharmaceutical houses. Invariably, these pharmaceutical types were great at big company skills such as running meetings or making presentations. But they were totally out to lunch when it came to corporate strategy, marketing and financing.

I don't think there is any business community in the world as sophisticated as Silicon Valley. Countless entrepreneurs I meet can speak articulately about business models, capital structures, technologies, manufacturing strategies... you name it. It's like everyone has a MBA, whether they actually have one or not. (Note: A friend of mine says that the best MBA course is watching "The Godfather.")

BAD TREND: Too much money chasing too few deals. Ever since I came to Silicon Valley 20 years ago, I've heard the cliché that there is too much money chasing too few deals. I thought it was unmitigated nonsense for years. However, now we have more than \$3 billion of new capital going into Bay Area startups every quarter... and growing rapidly. That figure also probably ignores much of the capital invested by angels. Could it be that we are finally exceeding the need?

There are several billion-dollar VC funds now. They're writing \$50 million checks in single rounds of financing. Heck, I remember when \$50 million represented an entire fund. A \$100 million fund was called a "megafund." All of this has led to a plethora of me-too deals. It's also changed the VC industry from a cooperative, collegial little business, into a cutthroat competitive contest where each deal becomes an ugly feeding frenzy. Venture capitalists themselves are treated and act like rock stars.

One of the worse results is that startups have become sloppy. Money is thrown around in a way that would have made entrepreneurs gasp 10 years ago.

GOOD TREND: Capital is flowing to where it's needed. On the other hand, there's plenty of capital available for the new economy. Maybe it takes this kind of investment to pull this off. After all, General Motors alone probably spends close to \$3 billion per quarter on engineering.



HOW THE INTERNET RUINED SAN FRANCISCO

The dot-com invasion -- call them twerps with 'tude -- is destroying everything that made San Francisco weird and wonderful.

By Paulina Borsook

<http://www.salon.com/news/feature/1999/10/28/internet/index.html>

Oct. 27, 1999 | I had the misfortune to live in Manhattan during the '80s, when all conversations turned ineluctably to real estate and the shops and people that made New York interesting were being wiped out by a boom economy. Then, you'd see a slightly faded kosher butcher shop replaced by an Italian fusion restaurant, what was the rehearsal space for a dance troupe become a lawyer loft.

Now in late-'90s San Francisco, you can have all the Manhattan greed-is-good bull-economy moments you like. Freed, Teller and Freed, the oldest coffee and tea seller in the city (established 1899, its handcrank cash register in use until the end) survived all – earthquakes, the Depression, Starbucks – but it couldn't survive the Internetting of San Francisco: It closed Oct. 15, its building to become condos. You can stand on Sixth Street smack in the middle of SOMA (where Wired got its start) and the flow of traffic now evokes Sixth Avenue in Manhattan. Parking is bad all over the city, the gratuitous kindness from strangers and service personnel I always so pleasantly contrasted with New York is fading fast, and it's beginning to be all too clear that people have no slack in their lives.

Commercial real-estate prices have gone up 42 percent since 1997 in San Francisco's Mission District, a formerly working-class, affordable, largely Latino neighborhood where in the old days auslanders only ventured to get burritos at Taqueria La Cumbre and sex toys at Good Vibrations. Now it's the scene of some of the most bitter class struggles in the city, the Yuppie Eradication Project (let's key those SUVs!) vs. sleek dot-com people, who look like nothing so much as the slickers I cowered from in the '80s, who lived on Manhattan's Upper East Side and commuted to Wall Street. On happening Valencia Street, where druggies and minimum-wage immigrants walk past their economic superiors, a fenced-in parking lot has appeared, where a white-coated valet protects a phalanx of Mercedes and Lexus SUVs from the neighborhood. By 1998 two-thirds of the people living in the Mission were new arrivals – mostly from Wharton or MIT, not Honduras, you may be sure.

The median price of a San Francisco condo was \$410,000 in August 1999, more than a 40-percent increase from August 1998. The median rental price for a two-bedroom apartment was \$2,000. Avalon Towers, the first high-rise apartment to go up in San Francisco in more than a decade, has had no trouble attracting tenants who pay rents ranging from \$2,400 to \$4,000 a month. Eighty-five percent of them earn more than \$100,000 per year, 60 percent are under 40, and two-thirds are new to the city. Good bet these aren't the bad poets, malcontents, and fruits and nuts looking for a new start that the city has always attracted.

Evictions, legal or illegal, are at an all-time high – and 70 percent of those evicted leave the city. Ted Gullickson, office manager for the San Francisco Tenants Union, says his nonprofit's business, that of protecting renters' rights, more than doubled in 1995-96, and has increased by 25 percent every year since. He has watched the Internet-induced housing crisis (astronomic prices, abysmal vacancy rates, economic exclusion) move

north up the Peninsula through Santa Clara and San Mateo counties into San Francisco as the Way New Economy has overtaken the Bay Area. Silicon Valley creates nine new jobs for every new housing unit: What does it mean for San Francisco to become a suburb of Palo Alto?

In San Francisco, he says it's now the case of "the richer gentrifying the rich," meaning renters in the most whitebread and affluent neighborhoods in the city – the Marina and Pacific Heights – are also being evicted or forced out.

According to state income-tax returns, the gap between rich and poor in San Francisco increased 40 percent between 1994 and 1996 – just about the time the new parking enclosures started happening and the Net started making investors very, very happy.

So what's the big deal? Isn't the dot-com invasion just the latest example of gentrification – a phenomenon that started in the go-go '80s? In a sense, yes – but the speed, libertarian ethos, irritating hipster pose and chilling finality of this invasion put it in a different league from earlier ones. Sure, San Francisco in the Reagan years also had its share of Jay McInerney types in suits hitting the clubs. But in those days the city had temporarily ceded its status as financial center of the West to L.A., so some of those corporate sharpies had to have been here for at least some reasons beyond revenue and career-enhancement. Now San Francisco has become a city of 22-year-old Barbie-bunny marketing girls who don't realize the Web is not the Internet, and guys who have come to San Francisco because the dot-com version of Dutch tulip-mania offers better odds of instant wealth than making partner at Merrill Lynch. The result is a city whose unique history and sensibility is being swamped by twerps with 'tude.

Remembrance of things past: Part 1

When I lived in Potrero Hill in the 1980s, my landlord was my next-door neighbor, the kind of kindly, eccentric bohemian this historically most-lefty-in-the-city nabe had always attracted. The Slovenian union hall is situated here. Traditionally, journalists and low-rent architects and artists were drawn here, in part because of the cheap rents and good light. Joe's grandparents had owned a cattle ranch on what is now part of the greenbelt surrounding Stanford University; Joe got a degree in theater arts from San Francisco State, had lived in Paris and North Beach in the '50s, in a loft in the Haight in the '60s, and for years made his living making architectural models. He also owns a 1949 Ford truck, which he always kept parked near the intersection we lived on – not an issue in a neighborhood where there is lots of on-street parking.

Joe isn't running a meth lab, nor routinely scheduling raves, nor kenneling yappy dogs, nor, unlike my next-door neighbors in Santa Cruz, running an illegal car repair and refinishing business out of his house. He rides his bike far more than he drives. He's lived in that sun-drenched flat for close to 20 years, and been a good neighbor to all. Yet someone, starting about three years ago, began phoning into the Department of Parking and Traffic, complaining about his abandoned eyesore truck – and they succeeded in getting it towed if he didn't move it often. Why live in Potrero Hill – a neighborhood that abuts a light-industrial area, where Anchor Steam beer is still made and until only a few years ago you could smell the Hills Brothers' coffee roasting that always made the entrance to the Bay Bridge smell like toast – unless you can appreciate the beauty of a museum-quality mid-century truck? We both suspect that if it were an SUV parked in front of his house, and not his trusty steed of 40-plus years, the anonymous informer would never have acted. Joe, whose duplex with smashing views is long paid off, tells me he feels like he's being forced out by the dot-com people.

Artists and arts organizations have been and continue to be economically harassed out of the city – a trend exacerbated by the new gold rush. With no rent control on commercial property (modest 1,200-square-foot spaces now routinely rent for \$3,000 a month), all

kinds of rehearsal spaces and performance spaces and exhibition spaces and *true* live/work spaces (not the slapdash gimcrack monstrosities being thrown up by powerful contractor Joe O'Donoghue's Residential Builders Association, where chief technology officers live for their work) are in jeopardy. To take just one example: Artists' Television Access, a Mission District exhibition space where the best and worst of non-commercial films have been shown for years, is in jeopardy.

As Carren Shagley, a San Francisco realtor, asks, "What artist can pay \$650,000 for a live-work space?" Still, these tenements of tomorrow would make a techno-libertarian proud: They don't pay into the city's public-school taxes, and their developers are not required, as they would be with other kinds of developments, to make *any* of them affordable housing. Ah, the beauties of the free market and the freedom from despised regulation.

Creating work that you hope might have value beyond a Webweek, or not intended to be monetized on the Web, requires time and space enough to be able to live at least at subsistence level while you rehearse or paint or go against City Hall as a skateboard activist.

But the Internet culture that celebrates all work all the time doesn't accord value to anything that isn't easily monetized – or corporatized. The importance of leisure time, of being able to support yourself with a day job to pursue other ends, to rehearse and canvass and organize and noodle and reflect, is totally at odds with the all-connected-all-the-time upside-potential lifestyle of the dot-com people.

Gabriel Metcalf, deputy director of San Francisco Planning and Urban Research Association (SPUR), says that the newcomers to the city are "much less politically active; don't join neighborhood associations."

Well, sure. Unlike traditional émigrés to San Francisco, who came for the landscape or to live in a human-scale, cosmopolitan, liberal city or to explore whatever personal desires, strange art forms and political activism they couldn't in their own hometown, the dot-com people are coming mostly for the money – whatever San Francisco has been historically or culturally is beside the point. San Francisco is a collection of distinctive villages with their own microclimates and strong community feeling, from North Beach to Noe Valley to the Haight to Bernal Heights, but that's not why it's become the top destination for graduating MBAs. Dot-com people just need a place to crash after they work 15 hours a day – sleep is for the weak and sickly. They haven't lived here long enough to know or care about civic issues, for the most part – and for those who subscribe to the prevailing high-tech orthodoxy of libertarianism, there's not much reason for them to care.

Larry Rothstein, a San Francisco plaintiff's attorney for 20 years, talks about the "I've got mine so screw you" attitude of the dot-com folks he has been running into "in the last couple of years" in San Francisco juries. "They're just here to make a buck and quickly leapfrog up the corporate ladder," he says. "They grew up under Reagan-Bush and parrot the line about how frivolous lawsuits are bad for business and how nothing must interfere with profit flow of a company. They're under- and un-educated – they've only ever worked in high tech, can't imagine what it's like to not have insurance, not be able to afford a car, not be able to get a job. They have sick pay, they have a safety net, they have money, and can't understand that there are people who don't. They have a total lack of spirituality or soul. They're a new generation of Republicans."

This in San Francisco, the city that all the world likes to deride for the silliness of its political correctness? Truly, these are end times.

A friend who's an exec at a high-tech P.R. firm commented to me on what he called "the voracious sense of entitlement" he runs into in the dot-com kids he employs, fickle creatures with no loyalty. Yet we both know that while he and I came of age during the era

of guys with Ph.D.s in economics driving cabs and stagflation, the dot-coms have never known anything but a bull market.

I don't want to demonize the entire dot-com world. Long before the Net boom, many liberal-arts flakes ended up working in computing because in the Bay Area, that's where the jobs were. And it's a good thing that former English majors from Cal can go on to become productive members of society working as sys-admins. There are carpetbaggers, yes, but there are also plenty of newcomers who both live and work in the city, and proudly so. Take bike riding, an important measure of good urban citizenship: The Net start-ups are much more bike-friendly (and thus, sensitive to the stressed city infrastructure they are located in) than more established companies. CNet, for example, has space for about one-third of its employees to commute by bike.

But the good dot-com citizens, at least at this point, seem to be in the minority. Take politics. The in-flow of new people into the political process is what a city relies on to keep it vital. But San Francisco's newest arrivals seem utterly disengaged. Admittedly, the city's current mayoral race, an embarrassing three-way battle between a corrupt, out of touch, master-of-machine-politics mayor, a scary, slimy political consultant and a well-meaning anti-charismatic former mayor/cop, doesn't inspire much passion – nor does the who's-a-bigger-victim identity politics that have dominated much of San Francisco civic discussion for the past decades. But there's a lot more to politics here than that. Besides, what has San Francisco always been but the place where, if you didn't like the politics, you could go out and make some of your own? The late Harvey Milk may have been the first out gay supervisor, but he was a supe for all the city. Jello Biafra was a mayoral candidate.

Remembrance of things past: Part 2

Back in 1981, I attended something called the "Bad Attitude in the Woods Picnic," a get-together in a state-owned redwood grove just north of San Francisco for folks interested in Processed World, a goofball anarcho-situationist publication that was the mother of all zines, focussed on though not limited to critiques of information technology, and whose commentaries on computers, sex, work and play still ring true today. There I met Chris Carlsson, PW's chief instigator, a sly wit of pastiche and a subversive of the best kind. Chris has gone on to be a ringleader for Critical Mass and of "[Shaping San Francisco](#)," a sort of collaborative people's multimedia history of San Francisco, and was co-editor for the City Lights anthology "Reclaiming San Francisco," which contains essays on everything from the lost natural history of the city to the origins of its foodie culture. In other words, Chris is just the sort of home-grown home-brew rebel-creator who embodies the good wackitude of the city.

Anyway, Chris has just gone through the breakup of his long-term relationship (a child and a mortgage are involved) – and not only has he had a hard time finding a place to rent, he has no idea where he might be able to buy. He told me he's on a list of potential candidates to get in on a true (as opposed to a product marketing manager's garage with a view) live-work space at Project Artaud, a long-established alternative arts enclave. Only he told me the list of candidates for this affordable space is about 70 people long – and he was worried that his needed credentials for artist-hood weren't pure enough, never mind how influential his way-early mocking, appropriating, pomo, visual P.W. satires were. Chris made it sound like getting in was about as difficult as getting into one of those co-ops on the Upper East Side of Manhattan (no Jews, entertainers or new money, please). He's a local hero, and he no longer belongs here.

San Francisco was where California cuisine, which kicked off the entire U.S. craze for the fresh, the regional, the free-range, the organic and the eclectic, got started. But the people who can afford to support this are driving it into the ground. Patricia Unterman, longtime food critic and owner of the long-lived and much-loved Hayes Street Grill, wrote

in the Examiner that "cooks who have spent \$30,000 and three years on a culinary education can't afford to make \$10 to \$15 hour on a cooking line, which is all most restaurants can pay ... The pool of labor for traditional restaurant jobs gets smaller and smaller as rents escalate. Newcomers to San Francisco are lucky to find a room, even if they are willing to rough it. But what if a cook, a good cook, has been working 10 years in a good restaurant, and he or she wants to start a family?" The result, Unterman writes, is that "cooks rightfully begin to question their future in the profession. They leave cooking because it doesn't pay enough, or they move way out of town or they take another job to supplement their income. Pretty soon, the other job ... designing Web pages, becomes the main job." Demoralized by making less money than almost all of the people they serve, Unterman writes, skilled cooks quit and are replaced by beginners – and your food isn't as good.

Remembrance of things past: Part 3

My best friend who died of AIDS moved to San Francisco in 1976. It was through his then-girlfriend that I met him back in Wisconsin, for he was still living as straight. He moved to San Francisco in part because I was around – and in part, I now realize, because he needed to come out, and San Francisco was where he knew he'd be able to do it. I remember the day we were trying to decide which apartment on Russian Hill he should pick – the studio or the one-bedroom with the views of Treasure Island and the Bay Bridge and the kitchen with the black-and-white tiles, for the slightly more expensive price of \$300 per month. We had time to decide; I urged him to go for the beauty one. And until he moved back to Madison to die there he remained, in the place where he could sit in his director's chair and brood out the window for hours, drink bad white wine and, when the spirit moved him, paint good pictures and make room-enhancing sculptures. All supported through groveling at tables less than 30 hours a week, which gave him the free time to explore San Francisco – which in his case meant both its art worlds (he took me to the first performance piece where I saw people wearing black) and its gay worlds (it was at a diner in the Haight where over dinner he finally came out to me because he had finally toppled for someone).

But the dot-com revolution has threatened to destroy the gay community. As Brian Bouldrey wrote in the Bay Guardian, a local alternative paper, "Young people can no longer move to San Francisco to be queer anymore, not unless they have a college education and know how to design a Web site ... The fantasy of San Francisco as a gay paradise is over ... How much does the Web affect the vitality of the gay and lesbian community? ... Face it, gays and lesbians are abandoning 'the community.'"

It's true. A friend who belongs to an organization of gay journalists tells me it can't seem to engage the interest of the younger writers who have jobs with online publications – they have no political or cultural gay identity and are only interested in their stock options and job-hopping.

It's worth quoting Bouldrey again, because his observations about the corrosive effect of the dot-com lifestyle apply not just to the gay community but to San Francisco as a whole. "Take a head count of all your queer friends who were struggling artists in the late '80s and early '90s. How many of them have adopted the Silicon Valley lifestyle? And have you noticed that the nature of the Silicon Valley lifestyle is perfectly suburban: decentralized, commutable, compartmentalized. Disintermediation ... Getting rid of the go-between describes the success of the Internet. It brings the book to your door so you don't have to walk all the way down the street to search the shelves ... and to talk to a real person. "A guy walks into A Different Light bookstore [a famous gay bookstore] with a big list of high-end books ... and asked our clerks to help find them. We were happy to oblige, and when he was finished looking at a dozen or so books, he put them away and the clerk

asked, 'So can I help you with a purchase?' The guy said no, he just wanted to look at the books before he bought them from Amazon. We've got news for you, buster: Keep doing that and you aren't going to have any bookstores where you can paw the books."

So what can San Francisco mean, if it's not a place where you can be arty or subversive or living in genteel socialist poverty? Yes, there have always been rich people in San Francisco – hell, robber barons made San Francisco – but the point is, there was always room for the rest of us. You could have the backyard, suburban pleasures that are possible in a city that's not built to bulk, a city where well-to-do people lived right next door to people of modest means. Gross class stratifications weren't there. But not anymore. The San Francisco of Sierra Club founder John Muir and Ambrose Bierce; of Kenneth Rexroth, impresario of the alternative without whom there would have been no Beat scene in San Francisco; of the Tubes and the Jefferson Airplane; of R. Crumb and Bruce Connor; the place where Sam Shepard and Allen Ginsberg arguably created their best work; the [great beautiful last-chance saloon](#), the last best hope for those who can't fit in anywhere else – gone.

Gentrification is a story that's been told many times in many locales – but the difference is, it happened so *fast* in San Francisco. Yes, boomtown Silicon Valley means money is pouring into the city – but the city that remains is not San Francisco.

So that's what the Internet has done to San Francisco: given it the devil-or-the-deep-blue-sea choice of becoming either Carmel (its architectural heritage and physical beauty preserved like a dollhouse for the exclusive use of the touristic or the rich) or Hong Kong (economic development above all) or most likely, some hellish convergence of the twain. Or maybe, more accurately, it's becoming the place that seems to be the techno-libertarian idea of the good polis: Singapore with better movies. Business couldn't be better. And real soon now, there will be nothing troubling on the streets, nothing at all.



BRAD WIENERS (OUTSIDE) REVIEWS PAULINA BORSOOK'S BOOK "CYBERSELFISH"

For: [salon.com](#)

<http://www.salon.com/tech/books/2000/05/04/cyberselfish/index.html>

Time warp In "Cyberselfish," Paulina Borsook denounces high-tech culture as pitiless, egotistical and libertarian. She was right in 1996. By Brad Wieners **O**nly after I'd read well into Paulina Borsook's "Cyberselfish" and grown quite grumpy with it (the entire time I was reading, I felt trapped in late 1996) did it occur to me that most of the readers of this spirited book-length essay might not experience this time warp – not as severely, anyway. Nor would they likely know or care about the circumstances that contributed to its being dated-on-arrival. Some readers, I realized, might even pick it up without a predisposition toward its author. This was an astonishing thought.

Whether you were at the center or periphery of the San Francisco/South Park and Silicon Valley office park circles Borsook chronicles in "Cyberselfish," it's almost assured you met her or read one of her rants, including the [essay](#) for Mother Jones that launched this book. For those who didn't, Borsook is a lively, well-read, sarcastic writer who's infamous for pissing on the inside for all to see (mostly while as a contributor to Wired magazine, where – full disclosure – I worked) and for getting some things said that are on a lot of minds, but that are not getting said.

She's especially talented at sketching caricatures and does so throughout "Cyberselfish," where we meet a host of cypherpunks and [nerverts](#) (nerds who indulge in unusual sex),

ravers and gilders, entrepreneurial newts and programming flamingos. Her sketches are true enough that you nod and think, yeah, I know the type. Indeed, at its best, "Cyberselfish" reads like the ["Radical Chic"](#) of mid-1990s San Francisco.

Problem is, this strength also highlights the book's flaw: Her sketches are snapshots of a moment that has come and gone. A large part of the reason for this involves the book's rocky publishing history. "Cyberselfish" was originally set to be published three years ago by Hardwired, the now-defunct imprint of Wired Ventures, but the book bounced to Broadway Books when Borsook had a falling-out with Wired, and then to Public Affairs, a new division of Perseus Books, after a falling-out with Broadway. But a lot has changed since 1996.

How very long ago it seems that Phil Zimmerman, facing jail for distributing Pretty Good Privacy's encryption software, was the poster boy for the Internet. (Many of today's dot-commies probably don't even know who he is.) Today, it's all about Steve Case, Jeff Bezos and Meg Whitman. And now, rather than heroic defiance of government, some of these players are inviting the government to regulate their industries. Had Borsook recast her book as a portrait of the early, heady days of the Web, she might have had something – the next hot "anti-memoir." Instead she overstates her case with stale evidence.

Borsook contends that "the default political culture of high tech" is small-l libertarian, and because high-tech players are amassing so much wealth and power, their technolibertarianism poses a threat to civil society and all-American ideals like good public schools. According to Borsook, technolibertarianism ranges from "classic eighteenth century liberal philosophy of that-which-governs-best-governs-least [and] love of laissez-faire free market economics to social Darwinism, anarcho-capitalism, and beyond." It manifests itself in an embarrassing lack of philanthropy and "rebel-outsider" posturing such as the "crypto wars" (the ongoing debate between technologists and the federal government over how best to encrypt digital data and therefore protect the privacy of computer users).

The "ravingly anti-government" rhetoric of the [attendees of CFP](#) (the Computers, Freedom and Privacy Conference) also strikes Borsook as appallingly ironic since the Internet, like so many technologies that underlie the recent economic boom, was subsidized and cultivated by government agencies.

"Much as there are two forms of the plague – bubonic (less contagious and not necessarily lethal) and pneumonic (violently infectious and almost always fatal), technolibertarianism manifests in two forms: political and philosophical," she writes. The political strain, she says, is mostly just "convenient obliviousness" to the need for governance and giving back. It is often latent, or even denied. "I can't count the number of times," Borsook writes, "I've gotten into a discussion with a thoughtful, sweet high-tech guy about something where he will snort disdainfully about how he's not a libertarian ... and then will come right out with a classic libertarian statement about the el stewpido government or the wonders of market disciplines or whatever. It's rather like women who say, 'I'm not a feminist but I do believe in equal pay for equal work.'"

Philosophical technolibertarianism, Borsook argues, is the pneumonic strain. It's "psychologically brittle, prepolitical autism," she warns. "It bespeaks a lack of human connection and a discomfort with the core of what many consider to be human. It's an inability to reconcile the demands of being individual with the demands of participating in society, which coincides beautifully with a preference for, and glorification of, being the solo commander of one's computer." Momma, don't let your babies grow up to be [John Perry Barlow!](#)

In the chapters that follow, she takes us to the incubators and hot zones of this plague. She attends the since-discontinued bionomics conferences; examines Wired during its first five years; takes us inside the cypherpunk subculture. Then she discusses the

prospects for "cybergenerosity," explores the origins of technolibertarianism, and concludes with a bit of "what then must we do?"

As you might gather from her plague metaphor, Borsook is not much in favor of technolibertarianism. Elsewhere she calls it a conspiracy (with a parenthetical wink) and a demon. Since I am essentially a small-l liberal, it didn't bother me that she presumes that right-leaning technolibertarianism is frightful, but others will understandably balk at this. There are a number of thoughtful arguments that can be made to support the contention that free markets have done more to relieve poverty than anything a government ever has, and Borsook doesn't address herself to these at all. Rather, she argues that unchecked technolibertarianism threatens ill, if not catastrophic, consequences. We must read her book, she implies, to inoculate ourselves.

Well. Some problems present themselves even before she really gets started. For one thing, by "high tech," Paulina really means Silicon Valley – even more specifically, those involved in the San Francisco Bay Area high-tech field who participated actively in online forums during the first years of the Web (1993-1998). In little more than a paragraph she acknowledges that technolibertarianism is not as much of a pox in and around Boston's Route 128, nor is it leading to sick days at Microsoft – a corporate culture too "feudal," in Borsook's estimation, to promote virulent dissent.

The brevity with which she deals with Microsoft is doubly frustrating. First, because [the Justice Department vs. Microsoft](#) is the most visible and profound contest between free market values in high tech and the government, and second because she neglects to explore the complicated feelings anti-Microsoft technolibertarians have about the proceedings. Generalizing, of course, most Silicon Valley machers are pleased to see Gates taking it on the chin, and yet you won't catch them saying so on the record – there'd be too much hubris in that.

Many CEOs know in their hearts that they would have done what Gates did to build and secure his market share. Many are also aware that they operate, albeit on a much smaller scale, just as Microsoft does. They too make aggressive acquisitions and bundle previously independent software applications to add value to their product suites. In fact, this was even true of Netscape, the company Microsoft crushed and that put Justice on to Microsoft.

An even greater problem is that Borsook has us spend too much time coloring in a map of yesterday that does not correspond to today's territory. For instance, she's right that bionomics – using biological metaphors in business strategy, economy as ecology – has become more pervasive. But it has not gone mainstream merely as a way to justify winners and losers in the new economy, in cold-blooded survival-of-the-fittest fashion. In fact, perhaps the most mainstream book on this theme to date, Jane Jacob's ["The Nature of Economies,"](#) is primarily concerned with the ethics of the bionomics worldview.

The best part of Borsook's book is her hilarious treatment of cypherpunks. These "radical pro-privacy activists," she writes, view the government as "peopled only by the unprincipled, the dull-witted, the corrupt, and the power tripping. It is an angry adolescent's view of all authority as the Pig Parent, uniformly cretinous and bad and oppressive." Ha! And I couldn't agree with her more that cypherpunks ought to concern themselves more with the invasive tendencies of corporations and their one-to-one marketing schemes. And yet, for as often as she points out that the cypherpunk worldview is essentially adolescent, she doesn't give these heroes-of-their-own-space-operas hope of ever growing up. Why?

Borsook also undercuts her own thesis by raising the possibility that the "crypto wars" were a "charming excess of the recent past." She dismisses the idea, but I'd contend that's exactly right, and that the crypto fervor of '94-'96 is akin to day-trading now. Many get caught up in it for awhile, but all but a few burn out on it soon enough. Meanwhile, we

now have companies as high profile as eBay voluntarily [banning](#) the sale of firearms from their service.

By far the most problematic chapter for me is her third, where Borsook is at risk of becoming the [Renata Adler](#) of Wired. (My strong reaction to this section was predictable. I was an editor at Wired before and after its sale to Condé Nast in the spring of 1998. I left the magazine in December 1999.) Borsook does not go in for the personal attacks Adler advanced on her former New Yorker colleagues, but she seems to yearn for the early Wired even as she disparages it.

In its "glory years," she writes, Wired was "mostly libertarian, largely in denial that there could be anything wrong with high tech, and dismal with women." In short, Wired broke her heart, and discovering why helped her to see the magazine as Patient Zero of the technolibertarian plague. She doesn't have to work too hard to make her case that Wired, circa 1994 (when she was at her most active as a contributor), espoused libertarian ideas and values. It did. While its founding editor, Louis Rossetto, is too singular a political creature to absolutely pigeonhole (he did, for example, refuse to run any tobacco advertising in Wired), he definitely thought governments were backward, sclerotic institutions that needed some reverse engineering. So Rossetto could be called a libertarian certainly, and sometimes even a vociferous one.

But it's 2000 now, and even though Borsook acknowledges three or more times that Wired is no longer the technolibertarian typhoon it once was, she'd have us believe that it is still thought of as such and so we can ignore the particulars or significance of how it has evolved. This is not only lazy, but misleading – and the only real explanation I can think of for her reluctance "to go to the text" of Wired in the last two years is that it would so thoroughly contradict her thesis.

Not only are Wired's editor in chief and managing editor now women, so, too, is its chief political correspondent. None are especially dismal with women. I can confirm that many Wired readers were fed up with the magazine's over-the-top libertarianism before Rossetto departed and Wired sold to Condé Nast – and the magazine was listening to their feedback. And as imperfect a mirror of Silicon Valley mores as Wired may be, it has since reflected more of the very concerns Borsook first raised four years ago, including high tech's record on philanthropy and efforts to improve it. Even more remarkably, Wired now publishes essays by technologists like Bill Joy that openly question our faith in progress.

"High tech's animosity toward government and regulation," Borsook asserts early on, "goes beyond the animosity that exists in most of the general population, and is stridently opposed to other views." This may be true, but she never comes to close to making a convincing argument for her case.

I now live in Santa Fe, N.M. Hang with a Santa Fean in an off-the-grid "earth ship" (a house made of rammed dirt and used tires, heated with solar panels), drive around in a bashed-and-dinged Subaru with an eco-nut who lobbied to reintroduce wolves to the Southwestern desert, or sit down for a beer next to a guy who shot elk last weekend and whose pickup sports a "My President is Charlton Heston" bumper sticker, and you could quickly develop a sense that New Mexico is overrun with ravingly anti-government libertarians at both ends of the political spectrum. And the government is the leading employer here. (Well, maybe there's your explanation.)

Of course, this assessment is based only on a few first impressions. Still, the contrast between New Mexico monkey-wrenchers and rednecks who really do seem to hold libertarian views, and the high-tech workers who don't, led me to think about what broader trends Borsook overlooked. And here's what I came to: She fails to take into account just how young the people who staff the Internet industry really are and how fleeting their libertarian convictions really are. At least as an all-encompassing set of

political ideals, technolibertarianism, in my experience, is mostly a phase young dot-commies go through. The market has made them loaded overnight and technolibertarian rhetoric becomes their way of justifying their bank account and saying, how do you like me now that I'm money?

Remember: The kids who bum-rushed San Francisco's high-tech start-ups in the last five to 10 years (many of whom are my peers; I'm 32), graduated college cynical about the Reagan and Milken years and smack into the middle of the Bush recession (1990-92). The Web had not yet become the Full Employment Act it soon became for MBAs and "liberal arts flakes" alike.

Then, quite suddenly, my friends and I went from being told we'd never improve on our parents' standard of living, that we were a generational bad apple, to playing moguls-in-the-wings, pundits on TV. Friends who marched with me against the Gulf War were suddenly clad in biz-dev blue and tone-on-tone ties and sporting new suits from Ann Taylor, pulling 100K plus options.

Material success – and we got to act like mavericks, too. It went to our heads, and then we got head-hunted. We popped off like we had no one to thank but ourselves – like silver-spoon libertarians, even – after all, everyone had been telling us what slackers we were.

Now, I'm not saying there aren't some certifiable militia-ready technolibertarian assholes out there among my peers – there may be some who even claim Charlton Heston as their prez. But too many of the swing votes, the ones that could really turn technolibertarianism into an epidemic, are my sort of "make the world a better place for all" guilty yuppie bohos. We weren't actually born with silver spoons in our mouths, and we'll come around.

It's been a few years, sure, since we volunteered at the Haight Ashbury free clinic, but many of my peers wrote me e-mails about [the WTO protests in Seattle](#) full of misgivings and surprisingly pleased that Clinton scuttled the talks. They are constantly self-assessing. As they start families (and they are, too, like bunnies), I'm confident their mid-to late-30s will reveal them as, at the very least, bigger and bigger technolibertarian hypocrites; sniping about what idiots elected officials are and how they can't be trusted to grok and regulate high tech, even as they rely more on, and, crucially, begin to pay for improved community services. I'd even bet Borsook some underwater IPO shares that they start carping less about public key cryptography, and more about the quality of the local public elementary school.



WAS THE DOT-COM GOLD RUSH WORTH IT?

NSNBC study shows investing in Net IPOs
Was a colossal sucker's bet for retail investors

by Christopher Byron

<http://www.msnbc.com/news/429141.asp#BODY>

July 5 – There has, from the start, been an unquestioned assumption that has lurked at the heart of the investment boom in Internet IPOs – namely that Internet stocks are inherently valuable at any price because the long-term promise of the Web as a revolutionary communications medium would justify paying it.

So, now that the bubble has popped in the dot-com space for almost every company except those involved in the equipment and software end of actual networking, the time seems right to re-examine the premise on which the bubble was created. Were these stocks really worth what the public has been paying for them?

The answer depends upon who was doing the buying in the first place. A first-of-its-kind study of the more than 170 IPOs brought to market since 1996 by Wall Street's eight largest and best-known equity underwriters reveals the astonishing fact that as of this writing, the stocks of the dot-com sector have turned out to be a bonanza for institutional investors – and a colossal sucker's bet for retail investors in the public aftermarket. The study shows that in the aggregate, the IPOs of the dot-com boom are presently selling for roughly a 68 percent premium to the offering prices that clients of the underwriters paid in the pre-market. Yet these same IPOs are simultaneously selling for a 23 percent discount from the prices available to retail investors on the first trade in the public aftermarket.

In other words, institutions have realized a healthy return in the boom – even taking into account the recent collapse – whereas retail investors have lost more than 20 cents on every dollar.

That is because the boom in dot-com IPOs created enormous demand for shares in the aftermarket, enabling institutions to bail out of high-risk deals by simply flipping their shares to retail buyers who placed “buy at the market” orders with their brokers. As the boom continued, this in turn enabled underwriters to bring increasingly shoddy merchandise to market, even as retail investors wound up paying higher and higher prices for the increasingly shaky offerings. In the end, the retail investors became the dot-com bubble's

Greater Fools, standing there with outstretched arms to buy what the smart money was all too eager to sell.

But individuals in the aftermarket had to pay the split-adjusted equivalent of \$2.04 per share, which has cut their overall return to roughly half that of institutions in the pre-market. And when you factor in Goldman clunkers like iVillage Inc. – on which institutions have lost 65 percent of their money, whereas retail investors have lost 92 percent – retail investors in Goldman deals come out far underwater.

The next most prolific underwriter in the study – Morgan Stanley Dean Witter Discover – has brought 24 dot-com deals to market as lead underwriter since the boom began. Institutions buying these deals have seen their investment grow by nearly 134 percent

during the period; individual retail investors have lost nearly 17 percent. Reason? Stocks like Priceline.com, which was priced by Morgan Stanley at \$16 in the pre-market and wound up selling for \$81 to the public in the first trade in the aftermarket. The stock is today selling for less than \$37 per share, meaning that institutions are still up by more than 100 percent, whereas aftermarket investors have lost their shirts.

Merrill Lynch's underwriters have been bad news for institutions and individuals alike. Institutions have lost 21 percent on their money on Merrill's 11 dot-com deals, whereas individuals have lost 51 percent. Merrill's worst deal: Pets.com Inc., which came public with a pre-market offering price of \$11, sold at \$13.50 on its first trade in the aftermarket, and is now selling for \$2.25.

Investors have fared no better with Donaldson, Lufkin, Jenrette. DLJ has been lead underwriter in 15 dot-com deals during the boom. The firm's institutional clients have lost 20 percent on their money, and aftermarket investors have lost nearly 60 percent. DLJ's biggest success? Wink Communications, which is up nearly 90 percent to institutions. But aftermarket investors in Wink are losers. Retail investors paid \$31 on the first trade in the aftermarket, and the stock is today selling for \$28.12.

DLJ's biggest dud? E-Stamp Corp., which was priced at \$17 on the offer, sold for \$30 on the first trade in the aftermarket, and is today selling for \$1.75.

What this study shows quite clearly — beyond, in fact, any dispute or doubt — is that IPOs are simply not good investments for retail, buy-and-hold investors in the aftermarket ... and the fact that this latest boom in the market happened to involve offerings in the dot-com sector changed nothing. Many speculators and day traders have made fortunes in this market, but at the retail end of things, just about everyone else has been spanked real good.



DID YOU REALLY THINK YOU WERE WORTH \$300 MILLION?

by Dave Mandl

April 15, 2000

If you're so smart, how come you're not rich (any more)?

Sometimes a bad business plan is just a bad business plan. WebVan (from 34 to 5 11/16 in four months)? TheGlobe.com (38 13/16 to 3 in a year)? iVillage (130 to 10 5/16 in a year)? I'm sorry, but anyone who thinks a company in the business of delivering groceries to Manhattan residents in vans is worth ELEVEN BILLION DOLLARS deserved to be separated from his money. Even the lucky few who got into these stocks at IPO prices are deeply under water now; the far more numerous cowboys who bought in at two, three, or twenty times those prices have collectively lost billions, much of it borrowed to begin with.

And what about the dot-com entrepreneurs responsible? Apart from those who got wise and set up option "collars" or other complex transactions to protect their shares from these kinds of drops (unbeknownst to their shareholders), most have lost even more—though, of course, THEY were playing with the house's money. No doubt many of them simply knew a good scam when they saw one (see, for example, the Purdue University study that showed huge jumps in stock prices of companies that simply added ".com" to

their names), but apparently most really thought they were business geniuses, and could hold up their share prices as evidence.

That is (was?) the beauty of the "new" stock market: Just wish, hype your site, and everything comes true—unlike, say, real shops, which have to keep paying the rent or close their doors. In my neighborhood, there are certain storefronts that have a new business and a new owner every six months or so. My girlfriend and I play the game of predicting how long it will take each of the dopier ones to go out of business, and most do sooner rather than later. It's endlessly amazing how stupid these "businesspeople" can be: opening a humdrum women's boutique in the same spot where three boutiques have gone out of business in as many years, opening yet another card shop on the street where two other card shops are barely clinging to survival. Seems to me that most of these people are just not very bright.

But along with the Web came an entirely new crop of entrepreneurial geniuses, or so everyone thought—along with millions of greedy marks eager to foot the bill. In truth, many of their business ideas were as brilliant as "Let's put on a show!" or "I know: We'll sell, um, BOWLING GEAR over the internet!" In much the same way that millions of people once showed their belief by plunking down a quarter to see Judy Garland and Mickey Rooney transform their barn into a theatre, now hordes of people dropped their life savings or more to show their belief in TheGlobe.com, an internet "community" not half as interesting or easy to use as the thousands of newsgroups, chat rooms, and mailing lists it attempted to replace. On the day of the company's IPO, its shares shot up more than any other stock in IPO history. The fashion/scenester magazine PAPER published a profile of the two hip young geniuses behind the company, at the time worth millions and millions.

Now, TheGlobe.com is fast approaching penny-stock territory. And dozens of other "brilliant" dot-com ideas are also reeling from 90%-plus valuation drops. Did their shareholders really believe in these concepts? Did their FOUNDERS believe in them?

Most of them probably did. With all bull markets come "bull-market geniuses," self-proclaimed investing whizzes who are convinced that their superior intelligence is earning them double- (or triple-) digit returns, when in fact EVERYONE is making these returns just by owning the stocks that everyone else owns. Presumably, the heads of the companies whose stocks are skyrocketing also credit their superior management skills and vision for their companies' soaring valuations. When the companies driving a market like this have been founded by entrepreneurs in their twenties with little or no business experience and stock holdings worth hundreds of millions of dollars, their heads get especially swelled. The hubris of these CEOs and their investors is staggering: There have been any number of articles quoting dot-com founders as claiming that they're worth this kind of money because they "worked their ass off" for a few years. Yeah, right! I work 10 1/2 hours a day—where's my forty mil?

Can so many people really be so naive—or blindly greedy? The economics history books are filled with "New Eras" that ended just as badly as this one. There will never (can never) be a situation where every jerk with a cobbled-together business plan and a domain name can make himself half a billion dollars. When you see a situation like that arise, rest assured there's a major "correction" ahead, in every sense of the word. Certain billionaires will still be billionaires after the great tech-stock crash—like the uncle of an acquaintance of mine, a Master of the Universe whose name you probably wouldn't know; he's too smart to put money into net startups, preferring to buy up Japanese banks at

knocked-down prices. A handful, maybe even a large handful, of early dot-com entrepreneurs with decent business ideas will make a bundle. The rest will fade away, probably very quickly (like drkoop.com, now going down for the third time, though Dr. Koop himself reportedly sold a big chunk of his stake at the top). Their employees, mostly horribly ill-treated cyber-rabble who grin and bear it because of the promise of Gatsby-level wealth, will have to go back to the (gasp) five-figure salaries that they thought only Old Economy scum earned.

Three weeks ago, Martha Lane-Fox (co-head of the much-hyped U.K. net startup lastminute.com) was nearly as high in the British opinion polls as Princess Di. She was reportedly being considered for an important government commerce post. It took less than a month for her to be transmogrified into the punch-line of a thousand jokes, due mainly to lastminute.com's miserable stock performance, post-IPO. If her company had gone public during the ascent of the bull market, things might have been different, but the business she co-founded would be no less dumb—it would just have taken a little longer for her investors to lose all their money.

And she would have been a genius with a net worth of over 50 million pounds for a few more months.



HOWL.COM

(with apologies to Allen Ginsberg)

by Thomas Scoville

March 22, 2000

I saw the best minds of my occupation destroyed by venture capital, burned-out,
paranoid, postal, dragging themselves through the Cappuccino streets of Palo Alto at
Dawn looking for an equity-sharing, stock option fix,

HTML-headed Web-sters coding for the infinite broadband connection to that
undiscovered e-commerce mother lode in the airy reaches of IP namespace,

who poverty and ripped Yahoo tee shirts, cubicle-eyed and wired on Starbucks sat up
surfing in the virtual ether of one-million-dollar, one-bathroom condos next to the railroad
tracks, skipping across the links of killer Web sites contemplating ... Java,

who rammed their brains into compilers and saw Intel angels staggering on microchips
under the insane weight of investor expectation,

who blew off the search for Truth for as-yet-undreamed New Economy scams, business
models hallucinating infocapitalist messiahs on clouds of market cap,

who abandoned lucid dreams of a Better Way for Shockwave fluff and RealAudio baubles
dangling from the buggy venality of digital commerce,

who, while haunted by the scowling ghosts of hackers past – Stallman, Nelson, Engelbart – auctioned their immortal souls on eBay, with documentation and a full year of support included, of course,

who got busted in their spotless Nike cross-trainers traveling through cyberspace with a file of illegal crypto for Open Source,

who ate sushi in Austin or drank microbrews in Silicon Alley, jousting with bad mojo funk of layoffs, Chapter 11, or diluted company stock night after night,

who chained themselves to start-ups for the endless ride from San Jose to Wall Street on adrenaline and Evian, laptop batteries flaming out over Oklahoma, no more vegetarian entrees, sir, would you like the latex omelet instead?

endless nights of keyboard grinding and corporate microwave popcorn and Jolt Cola until the noise of their own deadlines brought them down, gawping, convulsing, mute, crushed beneath their own project plans,

who talked continuously about convergence and distributed control and cluetrains and Y2K and extropians and Libertarians and Microsoft and Linux and slashdot and wouldn't fucking shut up,

who pointed their browsers at Red Herring and Slate and Salon.com hoping against hope that somebody might be able to make sense of the infinitely perverse, ball-busting, soul-scorching, silicon-supernova black hole that kept them awake all night every night and wouldn't let them alone long enough to find dates in this lifetime,

who tattoo'd and pierced and dyed and branded themselves in a desperate act of self-mutilating cyber-hepster cool, all the while wearing a suit and tie on the inside they could never, ever take off, and praying nobody would find out about the MBA,

who renounced the smokestack relics, the old guard and their father's Oldsmobile only to find that they had been replaced by artifacts even less substantial,

who chanted the free market mantras of laissez-faire and techno-darwinism and Adam Smith's invisible hand-job except when Big Bad Bill the Bully Gates-of-hell came to take away their lunch.com – and became Socialists of Convenience.org,

who stalked investment bankers through Bistros and wine bars and martini lounges, begging pleading groveling for one more hit of funding from the luminous check-book oh please oh please oh please

ah, Bill, you are not safe, I am not safe, and now we languish in the dot com pressure cooker hoping for one last buzz of the old hallucinations.

The wrecked avenues, the sullied conduits, the pinched pipes of a quadrillion dropped and ruined packets.

The world wide waits, the denials of service, the infinite hosts of hardcore farm-animal boredom, ghoulish domain-name squatters jumping out from behind every virtual tree.

These failed revolutions, these paradigms lost, the end of Web Time, and P/E ratios good to last the next thousand years.

Dot com! Dot com! Dot com!
forever, and ever, ka-Ching.



FEAR IN THE MARKETS

Donald MacKenzie writes about the ways in which 'finance theory' becomes part of what it examines

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The investment partnership Long-Term Capital Management was set up in 1993 by John Meriwether, previously a successful bond trader and then senior manager at the US investment bank, Salomon Brothers. Meriwether recruited to LTCM, from Salomon and elsewhere, an impressive team of experienced traders and specialists in mathematical finance. Much of its trading was with leading banks, and it largely avoided risky 'emerging markets', preferring well-established ones such as those in government bonds of the leading industrial nations. The fund avoided speculation based on hunches. It built carefully researched mathematical models of the markets in which it traded, and invested in a way designed to achieve insulation from market movements, seeking small pricing anomalies from which it could profit. Although it had to borrow large amounts and commit money on a large scale to make an adequate return from these anomalies, LTCM scrupulously measured and controlled the risks it was taking.

From the start of trading in 1994 until the spring of 1998 it was strikingly successful, but unusually adverse market conditions that summer (following Russia's devaluation of the rouble and partial default on its rouble-denominated debt) pushed LTCM close to bankruptcy by late September. As its difficulties grew, the Federal Reserve Bank feared the consequences for already nervous capital markets of a sudden forced liquidation of the fund's large commitments, and therefore co-ordinated LTCM's \$3.6 billion recapitalisation by a consortium of American and European banks. The consortium has now recovered and indeed made a profit on this investment, and the fund is being wound up. No public money was spent on the recapitalisation, and - a small number of rich individual investors aside - the losses fell to wealthy institutions well able to absorb them, and to LTCM's partners and employees.

Material, then, for a business school case study, but no more? Although André Perold of Harvard has produced such a study, exemplary in its measured tone (unfortunately, it is not yet publicly available), the answer seems to be no. In the autumn of 1998, LTCM's distress provoked a torrent of comment, followed by a series of reports by bodies such as the President's Working Group on Financial Markets. More than a year later, the story still commands attention: it has recently been the subject of a BBC *Horizon* programme (a re-edited version was shown on US public television in February) and *Inventing Money*,* a book by Nicholas Dunbar, an editor of *Risk* magazine. Some of the discussion has been pure Schadenfreude, focusing on the presence among LTCM's partners of the 1997 Nobel laureates in economics, Robert C. Merton and Myron Scholes. The *Horizon*

programme on the work of Merton and Scholes used the LTCM episode to create an exciting, but distorted and misleading, story. Even Dunbar's generally informative book is marred by some gratuitous swipes at those involved. Paradoxically, the pervasive belittling of individuals minimises the interest of the episode. If LTCM's partners and employees had been greedy gamblers, or naive, inexperienced traders, its problems would have been predictable and of little interest. But they were neither: top Wall Street professionals held, and in many cases still hold, LTCM's partners in the highest esteem.

In the early 1970s Merton and Scholes were responsible (with their colleague, the late Fischer Black) for the single most important breakthrough in the modern mathematical theory of finance. This concerned the apparently esoteric problem of the pricing of options - that is, contracts that give one the right (with no obligation) to purchase ('call') or sell ('put') an asset such as a block of shares at a given price on a given future date or during a given period. It is a technically demanding problem, and one to which the 20th century's most distinguished mathematical economist, Paul Samuelson, had failed to find an entirely satisfactory solution.

Black, Scholes and Merton's solution to the problem was far-reaching, but their basic idea was simple and elegant. They showed how to construct a 'replicating portfolio': a continuously adjusted set of investments in both the underlying asset and government bonds or cash that would have exactly the same pattern of returns as an option. In an efficient market, the price of the option has to equal the cost of the replicating portfolio. If those prices diverge, there is risk-free profit to be made by buying the cheaper and selling the dearer of the two, and as arbitrageurs (market participants who exploit discrepancies between the prices of equivalent assets) do this, their purchases raise the cheaper price and their sales lower the more expensive one. Thus arbitrage eliminates any divergence between the price of the option and the cost of the replicating portfolio.

Black, Scholes and Merton's full analyses were more complex than this account might suggest. It is important to understand that constructing what traders call a 'position' may involve not buying an asset but 'short selling' it: that is, borrowing it, selling it, and later repurchasing and returning it, a perfectly normal sequence in the financial markets. More profoundly, the construction of the replicating portfolio depends on the assumption that returns on the underlying asset follow what Black and Scholes called 'a random walk in continuous time': a chance process with specific, well-defined mathematical characteristics. Previous research had shown that the random walk model gave a surprisingly good description of share price changes, and (largely independently) probability theorists, above all the Japanese mathematician Kiyosi Itô, had developed a sophisticated, rigorous calculus applicable to continuous-time random walks. It is an appealing irony that the Itô calculus, which (following its introduction into finance theory by Robert C. Merton) has become a key aspect of the mathematical foundations of modern American capitalism, was developed in part during the American bombing of Japan in the Second World War.

Black, Scholes and Merton's work has become fundamental to modern financial markets - and not just because options are now far more important products than when their articles on pricing were published in 1973. Their work also provided a new way of thinking about risk, and suggested a method for pricing and controlling the risk in a wide variety of financial products: find the replicating portfolio of more basic assets, and use that both to hedge (that is, offset) the risk of the product and to price it rationally. For example, the method helps investment banks to 'buy' risk from institutional clients (by selling them products that offset risk) and 'sell' it to others, such as corporations with

different vulnerabilities or speculators with an appetite for the large profits that can accrue from risky assets. A massive global industry in financial derivatives has emerged over the last thirty years (its 1997 turnover was estimated by the *Financial Times*, admittedly using extremely dubious measurements, as the equivalent of more than \$60,000 for every human being), and important aspects of it would not be possible without the mathematical techniques that have developed on the foundations laid by Black, Scholes and Merton.

Scholes's and Merton's involvement in LTCM has led commentators to ask whether the company's failure reveals basic errors in the assumptions underpinning their work with Black on option pricing. Dunbar, for example, says that these assumptions are 'flawed' - a common conclusion in discussions of LTCM. If Dunbar and the others are correct it would be a matter of real import, given how central these techniques have become to the global financial system. But the extent of the technical dependence of LTCM's trading on Black-Scholes-Merton reasoning is unclear until there is more information in the public domain - and to ask whether the assumptions of this reasoning are true or false is to pose a misleading question in any case.

Consider the similarities and differences between physics and finance. There is a generic resemblance between much of modern finance theory and mathematical physics. The Black-Scholes-Merton pricing equation is a form of what is known in physics as the heat or diffusion equation, which describes phenomena such as the flow of heat. The random walk model of share price changes appears in physics as Brownian motion, the movement of particles subject to minute, random collisions. Yet there is a crucial difference: finance inhabits the world of what the sociologist Barry Barnes calls 'social-kind' terms, not natural-kind terms. We do not ordinarily imagine that the flow of heat along a metal bar is affected by our beliefs about that flow. In finance, however, we cannot make the same presumption. Finance theory describes a world of human institutions, human beliefs and human actions. To the extent to which that theory is believed and acted on, it becomes part of the world it describes.

This (scarcely novel) observation is usually taken as a criticism of finance theory, but it is nothing of the kind. Its implication is not that the assumptions of that theory are false, but that their truth is a historical, context-dependent matter. Black, Scholes and Merton's basic option pricing theory, rests, for example, not just on the random walk model of price changes, but on the assumption that the replicating portfolio can be revised continuously by buying or selling assets (thereby maintaining a perfect hedge against the risks of the option) without incurring transaction costs. In 1973 that was indeed a flawed assumption: stock market transactions were expensive, and option traders could not do what they now can, almost instantly hedge by pressing a few keys on the hand-held computers they use to manage transactions, price options and measure risks. Over the decades since 1973, the assumptions of the possibility of continuous, cost-free revision of a portfolio, and of knowledgeable arbitrageurs able to exploit (and thus eliminate) even small price anomalies, have become more, not less, realistic.

Modern finance theory is itself part of the process that has made those assumptions more realistic. For example, 'index tracker' funds (one of the most popular products of the theoretical and statistical work that preceded that of Black, Scholes and Merton) seem to have played a part in driving down the cost of share trading. More generally, the availability of a systematic methodology for pricing financial products makes it easier to introduce them, to hedge the risks involved and to identify arbitrage opportunities. The trading activity that results increases the volume and liquidity of the financial markets:

hedging by traders on the Chicago Board Options Exchange, for example, forms a significant part of the volume of trading on the New York Stock Exchange. Larger, more liquid markets make it easier and cheaper to buy and sell financial assets, and so the continuous revisability of portfolios becomes a more realistic approximation to reality.

The key general point was made fifty years ago, not by an economist, but by a sociologist, Robert K. Merton, father of the finance theorist: beliefs about social institutions are a constitutive part of those institutions, not simply an external description of them. Merton's first example - in retrospect a poignant one - of what he called 'self-fulfilling prophecy' was a run on a bank: a rumour that a bank is about to fail causes depositors to seek to withdraw their funds, making what was actually a sound financial institution unsound.

Alone among the commentators on LTCM, Dunbar notes Merton's article, but even he does not explore its full significance. To do so, we must free ourselves from the assumption that a self-fulfilling prophecy is necessarily pathological. In some cases it is: Merton gave the example of the racist belief that black workers were strike-breakers, which was used to justify their exclusion from trade unions, and often left them in the position of having to take whatever work was available. In other cases, however - probably the vast majority - self-validating belief is perfectly rational. In the case of money, for example, the widely-shared belief that dollar bills will continue to be exchangeable for goods and services makes them usable for such purchases (that it is beliefs that ultimately constitute money becomes plain when those beliefs become precarious, as in times of social collapse or hyper-inflation). More generally, as Barnes has pointed out, all stable social institutions are underpinned by self-validating beliefs, and that is no criticism of the institutions or the beliefs: it is what constitutes their stability.

As markets and financial institutions change, the relationship between the assumptions of finance theory and 'reality' (even in very particular areas) does not remain static: it evolves. The dominant tendency, over the last thirty years, of what Robert C. Merton calls the 'financial innovation spiral' has been to increase the truth of finance theory's typical assumptions. Markets have become more efficient and more liquid, new products have made them more complete, arbitrageurs on the look-out for inefficiencies have become smarter, more thorough and more determined, transaction costs have decreased radically, and the ease with which positions can be adjusted has typically increased considerably.

Within this primary pattern, however, are many secondary complexities: the interconnections of institutions, beliefs and actions do not always promote stability. That, perhaps, is what gave the summer and autumn months of 1998 their dreadful significance for LTCM. The fund's market positions were varied, but a common theme underlay many of them. Using extensive statistical databases and theoretical reasoning, the firm identified pairs of financial assets the prices of which ought to have been closely related, which should over the long run converge, but which for contingent reasons had diverged: perhaps one was temporarily somewhat easier to trade than the other, and therefore more popular, or perhaps institutions had a particular need for one rather than the other. The fund would then buy the underpriced, less popular asset, and borrow and sell the overpriced, more popular one. The close relation between the two assets would mean that general market changes such as a rise or fall in interest rates would affect the prices of each nearly equally, and long-run convergence between their prices would create a small but low-risk profit for LTCM. The partnership knew perfectly well that over the short and medium term prices might diverge further, but the risks and the

consequences of them doing so were carefully calculated by using statistical 'value-at-risk' models, which measure the potential losses from adverse market movements and are now used by all the sophisticated players in the financial markets. As Dunbar notes, LTCM also 'stress-tested' its trading positions to gauge the effect on them of extreme events not captured by standard statistical models, such as the failure of European Monetary Union or stock exchanges crashing by a third in a day.

The Russian default was just such an extreme event, though one that no one had anticipated: the surprise was not that Russia was in economic trouble, but that it defaulted on debts denominated in roubles, rather than simply printing more money, and also that it temporarily blocked some foreign exchange transactions by Russian banks. LTCM itself had only a minor exposure to events in Russia, but the precise form of Russia's actions caused significant losses to Western banks. An investment fund called High Risk Opportunities failed, and (quite unfounded) rumours began to circulate that Lehman Brothers, an established investment bank, was also about to do so. Suddenly, market unease turned into self-feeding fear. A 'flight to quality' took place, as a host of institutions sought to liquidate investments that were seen as difficult to sell, and potentially higher risk, replacing them with lower risk, more liquid alternatives. Because LTCM's 'convergence arbitrage' generally involved holding the former, and short selling the latter, the result was a substantial market movement against the fund.

Although the evidence is still largely anecdotal, three additional factors seem to have worsened the effect of the flight to quality. The first was the simple fact that it took place in August, when many traders and managers are on holiday and markets tend to be thinner and less liquid than usual. The second factor was that LTCM was by no means the only market participant involved in convergence arbitrage: many of the world's leading banks, notably Wall Street investment banks, had broadly similar large positions. The third factor was that, as Dunbar points out, these banks employed value-at-risk models not just as LTCM did (to gauge the overall risks faced by the fund), but also as a management tool. By allocating value-at-risk limits to individual traders and trading desks, big institutions prevent the accumulation of over-risky positions while giving traders flexibility within those limits. However, if adverse market movements take positions up to or beyond the limits, the traders involved have no alternative but to try to cut their losses and sell, even if it is an extremely unfavourable time to do so. In August 1998, widespread efforts to liquidate broadly similar positions in roughly the same set of markets seem to have intensified the adverse movements that were the initial problem. Crucially, they also led to greatly enhanced correlations between what historically had been only loosely related markets, across which risk had seemed to be reduced by diversification.

Used as management tools, value-at-risk models (intended to describe the market as if it were something external) thus became part of a process that magnified adverse market movements, which reached levels far beyond those anticipated by the models. For example, if Dunbar's account of LTCM's risk modelling is correct, the probability of the fund's August 1998 losses was so low that its occurrence even once in the lifetime of the universe was very unlikely. Furthermore, though the use of such models was perfectly rational at the level of, say, the individual investment bank, it may have helped to produce a collectively irrational outcome. As 'spreads' (the difference between prices of related assets) widened, and thus in a certain sense arbitrage opportunities grew more attractive, arbitrageurs did not move into the market, narrowing spreads and restoring 'normality'. Instead, risk models used as management tools forced potential arbitrageurs

to flee, widening spreads and intensifying the problems of those who remained, such as LTCM.

LTCM, however, was constructed so robustly that, though they caused major losses, these problems were not fatal. In September 1998, though, a social process of a different kind got underway, in effect a run on a bank. LTCM's difficulties became public. On 2 September Meriwether sent a private fax to the company's investors, describing its difficulties and seeking to raise further capital to exploit what he described (quite reasonably) as attractive arbitrage opportunities. The fax was posted almost immediately on the Internet and seems to have been read as evidence of desperation. The nervousness of the markets crystallised as fear of LTCM's failure. Almost no one could be persuaded to buy, at any reasonable price, an asset that LTCM was known or believed to hold, because of the concern that the markets were about to be saturated by a fire sale of the fund's positions. In addition, LTCM's counterparties - the banks and other institutions that had taken the other side of its trades - tried to protect themselves as much as possible against LTCM's failure by a mechanism that seems to have sealed the fund's fate. LTCM had constructed its trades so that solid collateral, typically government bonds, moved backwards and forwards between it and its counterparties as market prices moved in favour of one or the other. Under normal circumstances, when prices were unequivocal, it was an eminently sensible way of controlling risk. But in the fear-chilled, illiquid markets of September 1998, prices lost their character as clear facts. As was in effect their contractual right, LTCM's counterparties marked against it: that is, they chose prices that were unfavourable to LTCM, seeking to minimise the consequences for their balance-sheets of LTCM's failure by getting hold of as much of the firm's collateral as possible. Fearing the failure, they made it inevitable by draining the firm of its remaining capital.

Subsequent events offer an intriguing coda. The episode seems not to have been simply a short-lived market aberration. Despite the general return of confidence following the Federal Reserve's three interest rate cuts in autumn 1998, spreads have remained stubbornly high (see, for example, the Bank of England's November 1999 *Financial Stability Review*). The reasons are complex, but one factor appears to be the wholesale flight of arbitrage capital. LTCM was the most dramatic victim of 1998, but by no means the only institution to be damaged. The proprietary trading activities of many banks also incurred heavy losses, and the leading American investment banks, which suffered substantial falls in their share prices, seem now to have withdrawn from convergence arbitrage almost completely. The absence of arbitrageurs has helped keep spreads wide. Fearing convergence arbitrage to be too risky, market participants have in a sense ensured that it remains so. One important participant, however, believes this implicit consensus to be wrong: LTCM's founder, John Meriwether. By last December, he had raised the first \$250 million of investment for a new venture. His Relative Value Opportunity Fund will perform convergence arbitrage similar to LTCM's, although it will not take such large positions and will use a risk model revised to take account of the huge, highly correlated, market movements of August 1998. If this new fund shows healthy profits, other participants are likely to return to convergence arbitrage, and spreads will eventually decline again.

LTCM's fate has provoked some anti-intellectual nonsense. Mathematical finance is part of the infrastructure of the modern world. The techniques developed out of the research of Black, Scholes and Merton continue to work perfectly well in millions of transactions daily, and to abandon them would be unthinkable folly. Yet we must also remember that finance theory describes not a state of nature but a world of human activity, of beliefs

and of institutions. Markets, despite their thing-like character, their global reach and their huge volumes, remain social constructs and the feedback loops that constitute them are intricate, knotted and far from completely understood.

Nicolaus Dunbar, *Inventing Money, The Story of Long-Term Capital Management and the Legends Behind It*, John Wiley & Sons 245pp

Donald MacKenzie, who teaches at Edinburgh University, is beginning research on the historical sociology of modern finance.



EUPHORIE UM NEW ECONOMY

Das Internet als Traumfabrik des Neuen Marktes.
<http://www.magnet.at/krisis>

von Robert Kurz

Was linke Anti Krisentheoretiker, Antideutsche und deutsche Kleinanleger nicht wissen wollen, weiß inzwischen jeder Banklehrling: Das Weltkapital sitzt auf der größten Finanzblase aller Zeiten. Natürlich wagt es trotzdem nur eine kleine Minderheit von Bankern und Finanzanalysten, die Seifenblase der von jeder ökonomischen Realität abgehobenen Börsenkapitalisierung auch als solche zu bezeichnen. Die große Mehrheit der Akteure im globalen Kasinokapitalismus, der Lobby-Analytiker und der ideologischen Wunderheiler ist wie immer berufsoptimistisch; und je mehr der Kapitalismus seine eigene Geschäftsgrundlage zerstört, desto zuversichtlicher werden sie.

Aber ganz ohne Verweis auf einen substanziellen ökonomischen Inhalt im Sinne zukünftiger Kapitalverwertung kann selbst die luftigste finanzkapitalistische Phantasie nicht auskommen. Die enorme Börsenkapitalisierung muss als Vorbotin eines ebenso enormen realen Wachstumsschubs vorgegaukelt werden. Dabei wäre dann freilich auch genauer zu zeigen, welcher Sektor der Produktion es denn eigentlich sein soll, der den neuen säkularen Aufschwung tragen wird.

Peinlicherweise sind die geisterhaften finanzkapitalistischen Vorböten inzwischen schon sehr lange unterwegs, ohne dass eine neue sachliche Gestalt sichtbar geworden wäre, in der sich das Kapital abermals im großen Maßstab realökonomisch inkarnieren könnte. Denn schon seit den achtziger Jahren werden die mit ständiger Beschleunigung steigenden Börsenkurse durch den Hinweis auf neue Inhalte der Produktion gerechtfertigt, die angeblich das ersehnte Potenzial für den Aufbruch zu neuen Ufern der realen Kapitalverwertung in sich bergen.

Leider mussten diese Inhalte jedesmal nach ein paar Jahren ausgewechselt werden, weil sich die vollmundigen Voraussagen nicht bewahrheitet hatten. So war die Produktion von Mikrochips und Personalcomputern nicht in der Lage, den Abbau von Beschäftigung und realer Wertschöpfung zu kompensieren, der von eben diesen neuen mikroelektronischen Technologien durch die damit verbundenen Rationalisierungswellen verursacht wurde.

Ebensowenig erfüllten sich die Hoffnungen auf eine »postindustrielle Dienstleistungsgesellschaft«: Bei den industriebezogenen Diensten wurde das Wachstum durch die »Verschlankung« der industriellen Kapazitäten begrenzt und bei den so

genannten Humandienstleistungen durch den Abbau von Massenkaukraft und Staatskonsum. So blieb auch in dieser Hinsicht die Erwartung eines großen Schubs von rentablen Arbeitsplatz- und Erweiterungs-Investitionen unerfüllt.

Inzwischen sind nicht nur die achtziger, sondern auch die neunziger Jahre dahingeflossen und es wird allmählich brenzlig. Wenn die ökonomisch körperlose, aufgedunsene Geldseele der Börsenkapitalisierung nicht bald glaubhaft in einen neuen »Körper« schlüpfen kann, droht sie sich ins Nichts aufzulösen. Not macht erfinderisch, und so musste wenigstens ein neuer vielversprechender Name gefunden werden, um das Platzen der Blase noch einmal zu verzögern.

In diesem Sinne machte seit 1999 ein wohlklingender Begriff Blitzkarriere: New Economy. Von US-Finanzanalysten schon Mitte der neunziger Jahre ausgebrütet, hat diese Wortschöpfung innerhalb kürzester Zeit einen Siegeszug rund um die Welt angetreten und wird in allen Medien besinnungslos heruntergebetet. Worin soll diese ominöse New Economy ihren Gehalt haben?

Die Rede ist von »Hochtechnologien«. Hatten wir das nicht schon mal? Der Name ist irreführend, denn schließlich wird High-Tech auch im gesamten Spektrum der alten Industrien und Dienstleistungen eingesetzt. Was jetzt aber endlich eine New Economy kreieren soll, ist schlicht das Internet; genauer gesagt: spezifische Techniken und Dienstleistungen für das Internet und im Internet.

Mit einem Wort: Das Internet soll jetzt den letzten realökonomischen Hoffnungsträger abgeben, um dem fiktiven Geldkapital der aufgeblasenen Börsenkapitalisierung wenigstens eine Art virtuellen Körper zu verleihen. Was natürlich heißen müsste, dass via Internet ein säkularer Schub von Beschäftigung und realer Kapitalverwertung kommt. Die schon gescheiterten Paradigmen von »neuer Technologie« und »Dienstleistungsgesellschaft« werden also in einem zweiten Versuch zusammengemixt und auf das Internet projiziert.

Das kommende Wirtschaftswunder soll sich im World Wide Web abspielen, die realökonomische Wachstumsdynamik paradoxerweise dem virtuellen elektronischen Raum entspringen. Und dieser neue Wunderglaube wird in noch schrilleren Tönen als alle vorhergehenden propagiert. Schon sehen die Chefeuphoriker aller Länder einen angeblichen Internet-Kapitalismus mit gewaltigen Potenzialen heraufdämmern, in dem sich ein »Total Web-Based Management« über den »Mehrwert auf der Web-Seite«, so die Web-benebelte Wirtschaftswoche, freut.

»Alle müssen ins Internet«, befand daher der deutsche Medienkanzler Gerhard Schröder anlässlich der Eröffnung der Computermesse Cebit im Februar 2000. Die »linke« grüne Ober-Realistin Renate Künast hechelte gleich hinterher und forderte in einem TV-Interview forsch, junge Frauen weniger als Altenpflegerinnen, sondern stattdessen »für den E-Commerce« auszubilden. Internet-Kapitalismus und Internet-Feminismus: was für ein nettes Paar.

Und auch der britische Strahlemann Tony Blair hat schon wieder mal eine Vision: Er sieht die neoliberalen Blüenträume von »New Labour« jetzt im Web reifen und »will Großbritannien zu einer zentralen Macht im Internet-Handel machen« (Handelsblatt, 13. März). Politik und Medien reagieren auf die neuen Stichworte wie Pawlowsche Hunde, denn für sie gilt erst recht die Devise: Dabeisein ist alles, Mitmachen um jeden Preis - und je besinnungsloser, desto besser.

Die Frage ist nur: Liegt der Option des kommenden Internet-Booms überhaupt irgendein sachlicher ökonomischer Gehalt im Sinne der Kapitalverwertung zu Grunde? Zusätzliche Ausrüstungen für das Internet werden auf der Ebene der materiellen Industrieproduktion kaum ein gesamtwirtschaftlich auch nur bemerkbares zusätzliches Realwachstum generieren. Denn die Hardware für eine Breitband-Telekommunikation ist bereits vorhanden (sie wurde ganz ohne Beschäftigungsboom geschaffen); und die Innovationen für einen direkten Internet-Anschluss oder überhaupt eine gesamtmediale Integration können weder technologisch noch ökonomisch ein neues Zeitalter elektronischer Massenproduktion mit dazugehöriger Massenbeschäftigung tragen.

Letzter Schrei: Handys, mit denen man im Kaufhaus per Online-Banking bezahlen kann. Das Produktions- und Beschäftigungsvolumen derartiger Erweiterungen von längst schon eingeführten Technologien ist viel zu gering, um den Erwartungen eines neuen säkularen Internet-Kapitalismus gerecht zu werden.

Die spezifischen Hilfsmittel für die Nutzung des Internet bestehen sowieso weniger aus zusätzlicher Hardware, sondern hauptsächlich aus neuer Software: Die »User« benötigen diverse Suchmaschinen, um im globalen Netz surfen und Informationen herausfiltern zu können; für alle möglichen Interessen werden spezielle Zugänge (so genannte Portale) angeboten.

Der Begriff der Maschine ist dabei allerdings nur metaphorisch zu verstehen, denn es handelt sich nicht um materiell bearbeitete Produktionsmittel, sondern um spezifische Computerprogrammierungen. Das gilt auch für die geschäftliche Präsentation, für Werbung usw. im Internet durch Home-page-Gestaltung (Web-Design). Das Angebot von Software in dieser Hinsicht mag rapide zunehmen.

Aber auf diese Weise werden keine entscheidenden neuen Beschäftigungs- und damit Wertschöpfungspotenziale herbeigezaubert. Denn die Kreation von Software ist extrem beschäftigungsarm und kann von einer Handvoll Spezialisten betrieben werden. Vor allem aber kann die massenhafte Reproduktion dieser Software nicht den Boom der früheren Industrien wiederholen. Folgte der Konstruktion von Autos oder Waschmaschinen noch eine ungeheuer beschäftigungsintensive materielle Produktion nach, so wird die selber schon ohne nennenswerte zusätzliche Wertschöpfung produzierte Software schlicht durch Mausklicks kopiert. Da werden nicht Millionen von zusätzlichen »Händen« benötigt.

Weder die Hardware- noch die Software-Hilfsmittel rechtfertigen die Euphorie einer kapitalistischen New Economy. Wenn überhaupt, dann müsste das neue reale Wachstumspotenzial im Internet selber zu finden sein. Aber die Möglichkeiten einer virtuellen Produktion von kapitalistisch verwertbaren Gütern sind eng begrenzt. Immaterielle Waren ohne nennenswerte materielle Investitionen können keine reale Wachstumsdynamik auslösen.

Was als Option übrig bleibt, ist also hauptsächlich die Kommerzialisierung des Internet: Das viel beschworene E-Business oder Net-Business kann allenfalls als jener E-Commerce in Erscheinung treten, auf den die gar nicht mehr besonders grünen Regierungs-Realos so begierig schießen. Aber genau das ist eine nur allzu durchsichtige Milchmädchenrechnung. Denn der bloße Handel bleibt immer eine nachgeordnete Erscheinung der realen Produktion. Wenn nicht ausreichend kapitalistisch produktive Einkommen erzeugt werden, muss auch der Kommerz erlahmen, der niemals aus sich selbst heraus ökonomisch reproduktionsfähig ist.

Für die Ausweitung des E-Commerce gilt insofern dasselbe wie für die Verlängerung oder völlige Freigabe der Öffnungszeiten im Einzelhandel: Die Leute haben auf diese Weise natürlich nicht mehr Geld in der Tasche, sodass nur Umschichtungen der Umsätze stattfinden. Gesamtwirtschaftlich handelt es sich bestenfalls um ein Nullsummenspiel.

Ohnehin sind dem Einzelhandel im Internet enge Grenzen gesetzt, denn man kann zwar virtuell einkaufen, aber natürlich nicht virtuell konsumieren (jedenfalls nicht die Masse der durchaus handfesten Produkte). Internet-Shopping und virtuelle Auktionshäuser, quasi elektronische Flohmärkte, mögen als Mode-Erscheinung einen gewissen Zulauf haben; ihre Sinnfälligkeit bleibt jedoch auf wenige Spezialprodukte (z.B. antiquarische Bücher, seltene Sämereien etc.) beschränkt.

Für die überwältigende Mehrzahl der Konsumgüter, die man nicht suchen muss, sondern an jeder Ecke erwerben kann, ist E-Commerce schlichter Blödsinn. Was man per Mausklick gekauft hat, ohne mehr als den Finger krumm zu machen, muss schließlich »real« und kostenträchtig abgeholt oder angeliefert werden - - und worin soll dann eigentlich der große Vorteil von Shopping per Bildschirm bestehen?

Im Grunde genommen haben wir es bloß mit einer hochgestochenen Umbenennung des guten alten Versandhandels zu tun. So startete der Otto-Versand Anfang 2000 den ersten bundesweiten Lieferdienst für Lebensmittel im Internet: Bei einem Mindestbestellwert von 30 Mark fallen 8,95 Mark Liefergebühr an. Angesichts solcher Kostenrelationen wird es die Masse der Normalverbraucher wohl notgedrungen vorziehen, sich doch lieber in die Schlange an der Supermarktkasse einzureihen. Und manche, die in einer Sekunde Echtzeit im Web eingekauft haben, durften sich dann schon mal vier Wochen Echtzeit auf das Eintreffen ihres jeweiligen Glücksgutes freuen.

Die lästige »erste Realität« steht auch im Hintergrund der Überlegungen, wenn nur ein kleiner Prozentsatz der zahlungsfähigen Konsumenten zur Aktion »unbesehen Kaufen« (Handelsblatt) bereit ist. Dass z.B. der E-Heiratsmarkt unliebsame Überraschungen bergen kann, musste jüngst der britische Tankwart Trevor Tasker leidvoll erfahren: Die pralle 30jährige Schönheit seiner E-Romanze im Cyberspace entpuppte sich, wie die Nachrichtenagentur AP vergangenen Monat berichtete, in der schnöden Realität als verwelkte 65jährige, die den Leichnam ihres vorherigen Lebensgefährten in der Tiefkühltruhe verwahrte.

Sicherlich wird die Diskrepanz zwischen virtuellem Versprechen und realer Erfüllung nicht immer so groß sein, und nicht alle handelbaren Güter haben einen so heiklen Charakter wie Bräute. Trotzdem wird auch die profane Ware in der Regel weiterhin nicht ohne sinnliche Prüfung Gefallen finden. Die wenigsten wollen die sprichwörtliche Katze im nunmehr elektronischen Sack erwerben.

Soweit aber der Internet-Einzelhandel überhaupt funktioniert, nimmt er dem realen Einzelhandel, der kostenträchtige Ladenflächen und Filialen betreiben muss, Umsätze und Marktanteile weg. Das zwingt logischerweise zu Schließungen und zu neuen Rationalisierungsschüben; bald werden sich die Kunden selber abkassieren müssen - natürlich ebenfalls mittels elektronischer High-Tech. Am Ende wird die schöne neue Welt des E-Commerce die Krise der Dritten Industriellen Revolution verschärfen statt überwinden.

Das gilt in noch höherem Maße für den kommerziellen Sektor des so genannten

Business-to-Business im Internet, auch unter dem Kürzel B2B bekannt. Gemeint ist damit der elektronische Handel von Unternehmen untereinander, der allerdings eine weitaus größere Bedeutung besitzt als das E-Shopping von Privatleuten. In Form von Beratungsfirmen und Software-Häusern schießen seit Ende der neunziger Jahre B2B-Unternehmen wie Pilze aus dem Boden. »Hat Ihre Firma E-Commerce schon in ihren Erbanlagen verankert?« wirbt etwa die Andersen Consulting mit ganzseitigen Anzeigen in der Wirtschaftspresse. Zweifellos, B2B revolutioniert tatsächlich große Teile des Handels. Aber mit welchen Konsequenzen? Das Internet, bislang eine globale Spielwiese, mausert sich bei der kommerziellen Anwendung zum neuartigen »Kostenkiller«:

»Am Beispiel der Finanzmärkte wird schon heute im Ansatz sichtbar, was auf den Gütermärkten bald geschehen wird. Aktienkäufe und Aktienverkäufe laufen heute weitgehend elektronisch ab. Sind bestimmte Schwellenwerte erreicht, werden in den Handelscomputern Kettenreaktionen ausgelöst, die von Menschen vorher definiert wurden. Käufer und Verkäufer schließen automatisch Verträge ab, ohne lange Suche oder aufwendige Verhandlungen. Der neue Marktpreis bildet sich binnen weniger Sekunden. Intermediäre wie die Handelsmakler werden in diesem System keine Funktion mehr haben. An den Gütermärkten werden diese technischen Änderungen jedoch deutlich tiefere Spuren hinterlassen als an den Finanzmärkten (...).« (FAZ, 23. Februar)

Mit anderen Worten: Was da über die Welt rollt, ist nicht der Anfang eines neuen Wirtschaftswunders, sondern eine riesige Freisetzungswelle von Arbeitskraft. Der gesamte Zwischenhandel, große Teile der Zulieferer, Lagerhaltung, Einkaufs- und Beschaffungsabteilungen - alles wird überflüssig, ganze Ebenen des »Wirtschaftsgeschehens« einschließlich erheblicher Teile des Managements selber müssen mittelfristig von der Bildfläche verschwinden. Schon setzen die großen Automobilkonzerne und Handelsketten mittels B2B ein »gigantisches Einspar-Karussell« in Gang:

»Beschaffungswege werden dramatisch verkürzt, beschleunigt und verbilligt (...). Die (...) Internet-Einkaufskooperation der Autogiganten Daimler-Chrysler, Ford und General Motors - die immerhin eine Einkaufsmacht von rund 480 Milliarden Mark repräsentieren - ist erst der Anfang. Sie beleuchtet jedoch schon sehr gut, welch ungeheures Potenzial im Internet steckt (...). Wie so etwas dann aussehen könnte, wird sich deutlich an der zweiten Mammut-Kooperation zeigen, die jetzt verkündet wurde. Die Handelsgiganten Sears aus den USA und Carrefour, der größte Einzelhändler Europas, bauen einen offenen Internetmarktplatz auf, auf dem sie ihre Lieferantenbeziehungen konzentrieren wollen (...).« (Handelsblatt, 1. März)

Diese qualitativ neuartige »Ausgliederung ganzer Prozessketten« als »Revolution in der Logistik« (Handelsblatt) mittels Internet entpuppt sich als die lange erwartete (und befürchtete) zweite große Welle der mikroelektronischen Revolution. Waren es in den achtziger und neunziger Jahren vor allem die Prozesse der industriellen Fertigung, die dabei von Automatisierung und Rationalisierung erfasst wurden, so handelt es sich jetzt um das gesamte Spektrum der kommerziellen Bereiche, der Verwaltung und der Logistik: Wie zuvor die Produktionstätigkeiten mittels Industrierobotern, so werden nun endlich auch die Bürotätigkeiten und Dienstleistungen durch das Internet ausgedünnt oder ganz abgeschafft.

Schon die erste Welle oder Stufe der mikroelektronischen Revolution hatte weitaus mehr Arbeitskräfte überflüssig gemacht als durch die Verbilligung der Produkte und die damit mögliche Markterweiterung vom kapitalistischen Verwertungsprozess wieder absorbiert

werden konnten. Hatte also der Kompensationsmechanismus der früheren Revolutionen in der kapitalistischen Produktivkraftentwicklung schon auf der ersten Stufe der mikroelektronischen Umwälzung nicht mehr gegriffen, so greift er auf der zweiten, durch das Internet definierten Stufe erst recht nicht mehr. Das Resultat kann nur ein weiterer großer Schub der strukturellen Massenarbeitslosigkeit sein: In Deutschland wird es dann eben nicht mehr bloß vier, sondern acht oder zehn Millionen Arbeitslose geben.

Auch die Folgen auf dem Weltmarkt werden dieselben sein wie bei der Anwendung der Mikroelektronik im industriellen Produktionsprozess: Ganze Länder und Weltregionen, denen das Geldkapital für die Investitionskosten der neuen Technologien fehlt, werden zusätzlich in den Ruin getrieben, wie die publizistischen Trommler für die wunderbare kommerzielle Internet-Revolution sehr gut wissen: »Der Wettbewerb wird sich verschärfen. Dramatisch wird es für Marktteilnehmer werden, die sich nicht auf die neue Situation einstellen können.« (Handelsblatt, 1. März) Was betriebswirtschaftlich gilt, ist aber auch volkswirtschaftlich hochzurechnen. Da wird die Nato wieder viel Friedensarbeit zu leisten haben in den neuen Zusammenbruchs-Regionen.

Natürlich will das herrschende Bewusstsein einer allgemeinen kommerziellen Web-Euphorie von solchen Konsequenzen nichts wissen. Gegen alle Erfahrung mit der Anwendung mikroelektronischer Rationalisierung in den letzten 20 Jahren soll nun ausgerechnet das Internet zur »Jobmaschine Nummer ins« (Wirtschaftswoche) werden.

Aber schon jetzt, noch im Vorfeld der großen Wegrationalisierung von Arbeitskraft durch B2B, zeigt sich das krasse Missverhältnis von Freisetzungspotenzial einerseits und zusätzlich für das E-Business benötigten Arbeitskräften andererseits. Angeblich wird die E-Jobmaschine gegenwärtig nur durch den Mangel an Fachkräften gebremst. Aber das Raisonement über die künftige wundersame Jobvermehrung dementiert sich selbst bis zur Lächerlichkeit:

»Frappierend ist das Tempo, mit dem die Stars am Jobhimmel ihr Personal aufstockten, allen voran die frisch gegründeten, vielfach am Neuen Markt notierten Firmen (...). Die Deutsche-Telekom-Tochter T-Mobil etwa, erfolgreichster Arbeitsbeschaffer unter den Telefonie-Anbietern hier zu Lande, will dieses Jahr zu den vorhandenen rund 7 500 Mitarbeitern weitere 2200 Kräfte einstellen, die Konkurrenten E-Plus und Mannesmann Mobilfunk peilen 800 zusätzliche Leute an (...). Der Hamburger Multimedia-Spezialist Management Data will bis Ende dieses Jahres mit 145 Angestellten fast dreimal so viele Leute unter Vertrag haben wie 24 Monate zuvor. Die Münchner Softwareberatung Bmp plant für Anfang 2001 rund 100 Gehaltsempfänger, fast eine Verfünffachung.« (Wirtschaftswoche, 11/00)

Kunststück, wenn die Ausgangsbasis derart absurd klein ist. Offenbar will der Autor dieser Lobes- und Hoffnungshymne seine Leser auf den Arm nehmen. Während das zusätzliche Freisetzungspotenzial nach Millionen zu zählen ist, geht die absehbare Reabsorption von Arbeitskraft gerade mal in die Hunderte, bestenfalls in die Tausende. Allein um die bereits vor der Kommerzialisierung des Internet entstandene Millionenmasse von Arbeitslosen aufnehmen zu können, müssten die E-Commerce-Unternehmen und Software-Klitschen bei den angegebenen Dimensionen ungefähr ein halbes Jahrtausend lang boomen.

Als Jobmaschine kann man die New Economy vergessen - damit aber auch als realen Wachstumsträger von »Wert«, das heißt von »geronnenen« gesellschaftlichen Arbeitsquanta. Im Internet kann sich das Kapital genauso wenig reinkarnieren wie in der

mikroelektronischen Industrie oder in den Humandienstleistungen. Das globale Web-Business setzt nur jenen Geister-Kapitalismus fort, dessen ruhelose Seele die für sich allein auf Dauer nicht lebensfähige aufgeblasene Börsenkaptalisierung ist.

In der Tat besteht das Neue an der New Economy vor allem darin, dass sie das ausschließlich spekulativ genährte Scheinwachstum verlängert, und zwar auf eine noch viel windigere Weise als bisher schon. Ein erheblicher Teil der E-Business-Phantasie war sowieso von vornherein auf die Börse gerichtet; und eine ganze Reihe der »neuen« Unternehmen stellen nicht einmal virtuelle Waren her, sondern offerieren schlicht als so genannte Discount-Broker (Online- und Telefonbroker) die sekundenschnelle Abwicklung von Aufträgen und »Realtime«-Informationen über die Kursentwicklung für die rapide wachsende Masse der Amateur-Börsenzocker, bestehend aus Minderjährigen, Hausfrauenclubs und Möchtegern-Cleverles jeden Alters und aus allen Bevölkerungsschichten. Für lumpige 99 Mark gibt es die Börsensoftware »Money Maker Classic«; und sogar die technischen Innovationen sind zunehmend auf die Börse zugeschnitten: Mit dem »intelligenten Handy« kann man jetzt nicht nur Einkäufe bezahlen, sondern direkt Börsen-Transaktionen abwickeln – am Strand, im Auto oder im Bett.

Wie der Internet-Kapitalismus die zweite Stufe der Wegrationalisierung von Arbeitskraft bildet, so bildet er auch die zweite Stufe der fiktiven Börsenkaptalisierung. Nachdem absehbar geworden war, dass sich das spekulative Potenzial der als Blue Chips bezeichneten klassischen Industrie- und Dienstleistungskonzerne Ende der neunziger Jahre erschöpfen würde, musste dem Voodoo-Finanzkapitalismus ein neues Feld eröffnet werden. In Wahrheit besteht die New Economy vor allem aus einem zusätzlichen Segment der Aktienmärkte, das sich (ausgehend von den USA) als so genannter Neuer Markt mit eigenen Indizes etabliert hat.

Das ist kein neuer Markt für reale Warenproduktion, sondern eben für neue Aktienpakete ohne jeden nennenswerten Verwertungsprozess. So trat in New York seit Mitte der neunziger Jahre der Nasdaq Composite neben den altbekannten Dow-Jones-Index; und in Deutschland macht der Nemax-Index des Neuen Marktes (Nemax Allshare und Nemax 50) dem Dax Konkurrenz.

Auch die Börse Tokio hat im Januar 2000 mit dem Segment »Mothers« den ersten Ansatz eines Neuen Marktes lanciert, dem bald mit Nasdaq Japan der »Quantensprung« folgen soll. Sogar die aufstrebende junge Börse in Polen liebäugelt schon damit, diesen Beispielen zu folgen. Zu erwarten ist, dass solche neuen Aktienmärkte in kürzester Zeit an allen Börsen aus dem Boden gestampft und mit eigenen elektronischen Handelssystemen versehen werden.

Es ist eine Flut von Neuemissionen, die da an die Börse drängen (inzwischen 20 bis 30 in einem Monat!) - mit dem einzigen Zweck, durch wilde Kurssprünge nach oben Geld aus dem Nichts zu scheffeln. Angehängt an den Internet-Boom haben sich alle möglichen Unternehmungen, die bis dahin niemals als Aktiengesellschaften in Frage gekommen wären. In Frankfurt und London geht sogar die Börse selbst an die Börse (mit B-Aktien der jeweiligen Börsenvereine).

Börsennotiert und webaktiv ist inzwischen auch der deutsche Sexversand Beate Uhse. Das Geschäftsergebnis ist zwar offenbar mager: »Nur verhältnismäßig wenige allerdings bestellen dann online Artikel wie das Straphemd 'Lustkracher' oder die Gleitcreme 'Glitschi' ...« (Der Spiegel, 10/00). Aber darauf (nämlich auf reale Gewinne) kommt es ja auch schon längst nicht mehr an, sondern eben auf eine möglichst schnelle und

exorbitante Börsenkapitalisierung am »Neuen Markt«.

Das gilt für die gehätschelten jungen Internet-Gründer doppelt und dreifach. Während es bei den Blue Chips noch eine haltlose Gewinnphantasie für das vermeintlich vor der Tür stehende Wirtschaftswunder war, von der die Kurse nach oben getrieben wurden, ist der Neue Markt jetzt schon so weit, dass es fast als schädlich für die Kursphantasie gilt, wenn ein soeben an die Börse gegangenes junges E-Unternehmen nicht happige Verluste macht. In den USA wurde dafür der Begriff der »Cash Burn Rate« geprägt:

»Dahinter steckt letztlich nur eine Frage: Wieviel Geld verbrennen Gründer beim Gründen? Gemeint ist die Höhe aller monatlichen Ausgaben – für Personal, Investitionen und Marketing –, die bei Web-Startups inzwischen üppige Dimensionen erreicht. So verpulvern High-Tech-Schmieden in der Regel schon im ersten Jahr 2,5 bis fünf Millionen Euro; Marketingausgaben können dabei bis zu 50 Prozent ausmachen. Das Interessante daran: Je höher die Cash Burn Rate (CBR), so die gängige Faustformel, desto erfolgreicher das Startup. So ist eine monatliche Rate von 500 000 Euro für Internetgründer normal (...).

Spätestens durch Startups wie Amazon.com oder Yahoo wurde klar: Wer im Web was werden will, muss mit ordentlich PS auf den Datenhighway, um eine starke Marke aufzubauen. Gewinne waren plötzlich egal, Anlaufverluste geradezu ein Wachstumsindex (...). Den Rekord in Sachen CBR hält noch immer Amazon.com. Der erst fünf Jahre alte Online-Buchhändler fuhr allein im vierten Quartal 1999 bei einem Umsatz von 676 Millionen Dollar einen Verlust von 185 Millionen Dollar ein. Das entspricht einer Verbrennungsquote von rund 60 Millionen Dollar im Monat. Auch nicht schlecht: Der Dienstleistungsmarktplatz Smarterwork.com. Erst kürzlich schlossen die Briten eine Finanzierungsrunde über zwölf Millionen Dollar ab, die vermutlich nur für die nächsten sechs Monate reichen wird. Dasselbe Bild hier zu Lande: Die Meinungsportale Ciao.com und Dooyoo.de beispielsweise rechnen derzeit mit jeweils rund zehn Millionen Euro Anlaufverlusten bis zum Jahr 2002 (...), so die Wirtschaftswoche (11/00).

Kein Wunder, dass unter den »Zehn Geboten für Revolutionäre« in der E-Conomy das neunte lautet: »Trachte nach Potenzial - Gewinne sind gal.« (Wirtschaftswoche, 33/99) Während der große Konsumgüter-Produzent Procter & Gamble Anfang März 2000 an der New Yorker Börse für eine bloße Gewinnwarnung (die Ankündigung nicht etwa von Verlusten, sondern von etwas weniger Gewinn) mit einem drastischen Kurssturz von mehr als 30 Prozent bestraft wurde und damit seinen zwölfjährigen Höhenflug als Blue Chip beenden musste, rasten gleichzeitig die Kurswerte am Neuen Markt ohne jede Rücksicht auf solche Nebensächlichkeiten nach oben.

So wurde etwa als Erfolgsmeldung berichtet, dass die Tomorrow Internet AG (Hamburg) im Geschäftsjahr 1999 »nur« 15,46 Millionen Mark Miese gemacht hat und das Ergebnis damit »um 18 Prozent besser ausfiel als der ursprünglich geplante Verlust (...)
(Handelsblatt). Natürlich wissen alle längst, dass das Gerede von bloßen »Anlaufverlusten« für das Gros der neuen Aktiengesellschaften nichts als Augenwischerei ist. Die Broker selber machen sich schon lustig über das Wortgeklingel der hoffnungsvollen Internetkapitalisten:

»Fondsmanager und Analysten in Frankfurt spielen Bullshit-Bingo: Bei Präsentationen haken sie Schlagworte ab, sobald der Vorstandschef sie in den Mund genommen hat. Der Manager, der die meisten Worthülsen genannt hat, gewinnt. 'Internetphantasie' allein genügt nicht mehr, um Kurssprünge zu provozieren.« (Wirtschaftswoche, 10/00).

Aber Banken, Groß- und Kleinanleger machen mit, weil es in Wahrheit nicht um mehr als zweifelhafte zukünftige Geschäftserfolge geht, sondern vielmehr der »Gier-Faktor« alle auf phantastische Kurszuwächse von 100, 200 oder noch mehr Prozent in kürzester Zeit hoffen lässt. An der »Traumfabrik Neuer Markt« (Handelsblatt) verdoppeln sich die Ausgabekurse der Neuemissionen oft schon innerhalb eines einzigen Tages.

Inzwischen hat sich sogar das Lottospiel direkt mit der neuen Börsenzockerei verschränkt: Beim »Spiel 77« waren im März 2 000 Aktienpakete im Wert von je 10 000 Mark zu gewinnen. Wie die Pilze schießen sonderbare Mini-Unternehmen mit einer Handvoll Beschäftigten aus dem Boden, die sich am Neuen Markt zu sagenhaftem Reichtum hochkapitalisieren. So ging das virtuelle Auktionshaus Ricardo.de 1999 mit 20 Beschäftigten, 5,7 Millionen Mark Umsatz und 2,5 Millionen Mark Verlust an die Börse, um über Nacht plötzlich 500 Millionen Mark »wert« zu sein (gemessen am Emissionsjahr, wäre das der Gegenwert von fast 100 Jahren des realen Umsatzes).

Nachdem die Kurse etwas zurückgegangen waren, gründete das Miniatur-Unternehmen eine »Tochter« namens RicardoBIZ, die zum Beispiel die Vermietung von Arbeitsräumen der Uni Frankfurt an Meistbietende vermittelt. Dabei ist neuerdings auch wieder jener Lars Windhorst, der Mitte der neunziger Jahre zum Lieblings-Jugendlichen von Altkanzler Kohl aufgestiegen war, weil er schon im zarten Alter von 17 Jahren genügend soziale Stupidität aufbrachte, um als Unternehmensgründer von sich reden zu machen. Nachdem der smarte Geldjüngling das spekulative Projekt eines Büroturms für das vietnamesisch-deutsche Geschäftsleben in den Sand gesetzt hatte, verschwand er in der Versenkung - um pünktlich zur Jahrhundertwende als inzwischen 23jähriger alter Hase wieder aufzutauchen, selbstverständlich mit einer Firma für verheißungsvolle Internet-Ideen, die ebenso selbstverständlich den Börsengang ansteuert.

Vorgemacht haben es in der BRD Jungunternehmer mit ökonomischen Luftnummern wie der 39jährige Paulus Neef mit der Multimedia-Agentur Pixelpark (42,4 Millionen Mark Umsatz, 4,2 Millionen Mark Verlust, 6,1 Milliarden Mark Börsenwert), der 29jährige Stephan Schambach mit dem E-Commerce-Unternehmen Intershop (Umsatz 90 Millionen Mark, Verlust 37 Millionen Mark, Börsenwert 16 Milliarden Mark) oder der 31jährige Karl Matthäus Schmidt mit dem Discount-Broker Consors (Umsatz 117,8 Millionen Mark, Gewinn 24,5 Millionen Mark, Börsenwert 8,2 Milliarden Mark).

Zusammen übertreffen die drei Kleinfirmen mit rund 30 Milliarden Mark den selber schon überhöhten Börsenwert von Volkswagen, einem realen Großunternehmen mit 147 Milliarden Mark Umsatz (Angaben nach: Der Spiegel, 9/00). Unter solchen Bedingungen musste sich die zweite Finanzblase des Neuen Marktes noch schneller und noch größer aufblähen als die erste der traditionellen Aktienmärkte. Übertraf schon das spekulative Niveau der Blue Chips alle historischen Rekorde, so setzte die Internet-Spekulation noch eins drauf: Schon wenige Jahre nach seiner Gründung überflügelte der Nasdaq-Index den Dow Jones ebenso wie der Nemax den Dax. So ist inzwischen von einer Scherenbewegung der Aktienkurse die Rede: Während die Werte der Blue Chips und andere traditionelle Aktienwerte nach zehn bis 15 Jahren exorbitanter Steigerung stagnieren oder zurückgehen, setzt sich das Kursfeuerwerk nun mit einer qualitativ neuen Intensität an den frisch etablierten Neuen Märkten fort.

Hatten die traditionellen Unternehmen, die wenigstens überhaupt noch etwas herstellen, ein selber schon historisch beispiellos überzogenes Kurs-Gewinn-Verhältnis (KGV) von rund 30:1 erreicht, so liegt das KGV beim Nasdaq Composite (und ähnlich auch in der

Spitze der deutschen Nemax-Werte) bei mehr als 200:1. Kein Wunder, dass diese klassische Messlatte für den Marktwert von Aktien bei den E-Euphorikern nichts mehr gilt: »KGV interessiert nicht«, so die Financial Times Deutschland, heißt es inzwischen in diesen Kreisen. Da wird es selbst der US-Notenbank Fed unheimlich, die in ihrem halbjährlichen Rechenschaftsbericht Ende 1999 warnte, die Nasdaq-Kurse reflektierten »im Vergleich mit historischen Normen ungeheuerlich hohe Gewinnerwartungen«. Es ist in der Tat unvorstellbar: Die Börsenkaptalisierung der Nasdaq beträgt im ersten Quartal 2000 mit der Summe von fünf Billionen Dollar bereits 60 Prozent des gesamten Sozialprodukts der USA, der Anteil der betriebswirtschaftlichen Wertschöpfung aus dem Netz dagegen liegt bei gerade mal drei Prozent; ganz zu schweigen vom realen Anteil an Produktion, Umsatz und Beschäftigung.

Jedes Kind kann sich ausrechnen, dass dieser virtuelle Scheinkapitalismus noch viel unhaltbarer ist als die spekulative Vorwegnahme eines traditionellen Wirtschaftswunders bei den Blue Chips, das ebenfalls nie mehr nachfolgen wird. Das Internet revolutioniert in der Tat die Kommunikationsmöglichkeiten, aber in Wahrheit über den Kapitalismus hinaus.

Eine tragfähige kapitalistische »Web-Wirtschaft« wird es mangels Produktion und Beschäftigung nicht geben. Außerdem ist der E-Commerce äußerst anfällig, denn es erweist sich als ziemlich aufwendig, die weitgehend (von den Telefongebühren abgesehen) kostenlose Nutzung des globalen Netzwerks in einem wirklich großen Maßstab als kapitalistisches Angebot zu organisieren und dabei die kommerzielle Abwicklung störungsfrei sicherzustellen.

Dieselbe Kostenlosigkeit, die betriebswirtschaftlich als Kostenkiller erscheint und dadurch zum Beschäftigungskiller wird, führt den Kapitalismus endgültig ad absurdum. Und nicht nur in negativer Hinsicht, nämlich als Abschied von einer Welt der abstrakten Arbeit, sondern auch als positiver Vorschein: Das Internet verweist auf eine Welt jenseits des Kaufens und Verkaufens, auf ein wechselseitiges Gratis-Verhältnis bewusst vergesellschafteter Individuen, während ein Gratis-Kapitalismus ein Widerspruch in sich wäre. Mehr oder weniger deutlich spüren diesen Impuls auch die Web-Surfer und Hacker, die sich gegen die Kommerzialisierung des Internet wehren und durchaus das Know-how für eine effiziente elektronische Sabotage besitzen.

Das zeigte sich Anfang 2000, als anonyme Angreifer in den USA und der BRD die Portale namhafter Web-Kapitalisten stundenlang blockierten und damit eine aufgeregte Debatte unter Bankern, Politikern und Geheimdiensten über den Schutz des heiligen Privateigentums an virtuellen Produktionsmitteln im Cyberspace auslösten.

Die eigentliche revolutionäre Bedeutung des Internet könnte in seinem Gehalt als postkapitalistisches Universalmedium liegen, das innerhalb der kapitalistisch verfassten Gesellschaft vor allem der oppositionellen Kommunikation dient. Als Medium einer sozialen Gegen- und Massenbewegung hat das Internet Zukunft. Es könnte die Konkurrenz durch globale Direktkommunikation aufheben und würde perspektivisch zum Kinderspiel machen, was der Räte-Idee immer als angebliche praktische Unmöglichkeit vorgehalten wurde: die unmittelbare Interaktion einer globalen Selbstverwaltungsgesellschaft ohne Geld und ohne Staat.

Der Beitrag erscheint voraussichtlich im Herbst in dem Buch »Dabeisein ist alles. Die Voodoo-Ökonomie des neuen Weltmarktes und ihr absehbares Ende«, Edition Tiamat, Berlin. www.txt.de/tiamat



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The Same Old New Media Colossus

By Doug Henwood.

Anyone who's been reading the business headlines over the last 20 years has gotten pretty used to giant mergers. Travelers + Salomon Bros. + Citicorp = Citigroup. Exxon + Mobil = Exxon Mobil. All in a day's work, it seems. But the engagement of AOL and Time Warner was enough to shock even the most jaded observer.

I say engagement rather than marriage because it's quite possible the deal will never go through. A market collapse or the Justice Department's antitrust division could spoil the celebrants' plans. But since it's a rare megamerger that doesn't go through these days, let's assume this one will. What's it all mean?

Much of the immediate clamor over the deal concerns the now-familiar specter of upward media consolidation-ever bigger companies commanding ever greater market shares. And this landmark 12-figure deal presents the additional, mind-bending prospect of a new media corporation-claiming the interactive brand loyalty of more than 20 million users-swallowing up a much more established "old" media giant. Many prophets of what is now known as the "media concentration thesis" forecast rampant cross-branding and brave new conflicts of interest, as the once-bracing competition between networks and the Net gives way to the implacable power of media monopoly.

But how grim is this prospect, really? There's no doubt the world's biggest media conglomerates are claiming an ever-larger share of the world's eyeballs, eardrums and cashflow. Concentrations of power are scary, but some of the anxiety looks a bit out of line.

Golden Ages of the past are evoked without much proof. After all, when exactly was it that things were so great? Was it when William Randolph Hearst was perfecting yellow journalism and promoting foreign wars? Was Time magazine better in the days of Henry Luce than it is today? Most Golden Age myths dissolve on close inspection, and this one is no exception.

In other words, the concentration argument is (as economists like to say) mis-specified. The problem with our big media is less a matter of size than the structural conditions under which they operate: the imperative of maximizing profit (and audience share) under competitive conditions. It's that imperative that leads to concentration, as the strong combine and the weak are winnowed out. And it's that imperative that leads editors and producers to devise the toxic mix of convention and sensation that concentration theorists blame on size.

The Lewinsky affair is a perfect illustration. News outlets competed for scoops-mainly leaks from interested parties-to lure viewers and readers. But had the president been removed from office, he would have been succeeded by Gore, a less scampish personality, but a politician with opinions virtually identical to Clinton's. In that sense, it was an ideal story for the American media-much ado about nothing. Just as competition

explains content, it also explains concentration. There's a sentimental view that competition leads to diversity in both content and the number of voices. In fact, it leads to sameness in content, as everyone imitates everyone else (again, as we saw in the Lewinsky affair). And of course, competition leads to increasing concentration, as the economic pressures of competition favor players with the biggest claim to shelf space. Left to its own devices, the market will deliver homogeneity and bigness. The only antidote to these tendencies is government policy to restrain combination and subsidize the offbeat-not exactly the most fashionable view these days, of course.

Say this, and almost any nearby new economy booster will answer: "Oh, but the Internet has changed all this." This fiber optic network is now reflexively imbued with almost divine powers to flatten old communications networks and overturn established hierarchies. Yes, the Internet does some of these things-though it's been largely forgotten that it owes its existence to about 30 years of subsidies from the federal government, specifically the Pentagon. It's hard to overstate the irony here: The technology that makes today's media and economy so millennially "new" has almost nothing to do with the free market that so many of its enthusiasts promote so tirelessly. For decades, private industry was thoroughly uninterested in the expensive and risky business of creating a national, then a global, computer network. Only after Washington had eaten all the startup costs was the Net privatized.

In fact, you could say as much about the entire computer industry. As Kenneth Flamm writes in his book "Creating the Computer": "Key players in the military first tried to convince established business and investment bankers that a new and potentially profitable business opportunity was presenting itself. They did not succeed, and, consequently, the Defense Department committed itself to an enormously expensive development program ..."

Europe's weakness in computers is often attributed to its stodgy business culture and thin financial markets, but, as Flamm shows, European governments were too stingy in their subsidies in the 1950s to get an industry going. By the 1960s, the U.S. lead was unbeatable. But we've been too busy buying dot.com stocks to think much about history. The stock mania is the other part of this story. Though the two companies like to present their merger as a partnership of equals, it looks more like AOL eating Time Warner, and paying the check with the inflated currency of its stock. It's tempting to call this deal the delirious climax of the great bull market, but this market has shown an unprecedented penchant for topping one delirious climax with another.

The Internet mania of the last few years is also unprecedented. The stars of earlier technology-driven bull markets-RCA in the 1920s, Xerox in the 1960s, Apple in the early 1980s-were all highly profitable. We've never seen speculative orgies over companies whose losses expand as their sales grow-and who have no prospect for making money in the visible future. The few profitable "blue chips" of the field, such as Yahoo!, make microscopic amounts of money-which hasn't stopped investors from pushing the market capitalization of Yahoo! beyond that of Viacom-CBS, twice that of Disney and half that of IBM.

Indeed, the giddy nature of the Internet bubble seemed to temper the responses of the market in the wake of the AOL-Time announcement. The first few days saw a sell-off in AOL's shares, as Wall Street studied the consequences of applying real-world valuation logic to the fantasy logic of cybervaluations. But that logic is steadily overtaking the real world. In the summer of 1998, I interviewed the manager of a mutual fund that invested

entirely in Internet stocks. He told me that in his world, it was a positive virtue for a firm not to have earnings, because you couldn't apply traditional valuation models to these stocks. I thought that his reasoning was pretty loopy-but he was clearly right. AOL has earnings, but until this week they've been valued according to the surreal methods applied to cyberstocks. No wonder Yahoo! has been vigorously denying any acquisition plans; if it were valued at the scale of, say, Disney, its stock would be trading at 9 3/8 rather than 341. In strict economic terms, it's hard to find any merit in the merger of AOL and Time Warner. Neither produces much terribly compelling media content, and their union is unlikely to change that.

But maybe this new-old media colossus will produce an unintended benefit: It could force people to return to Earth. The intellectual byproduct of the bull market has been some wild mythmaking about weightlessness and liberation from the constraints of the material world. To listen to some enthusiasts, you'd think the triumph of the Internet will bring an end of poverty and oppression. It won't. I'm tempted to hope that running AOL through traditional valuation models might prick the financial bubble, and with it, the intellectual bubble. But maybe I'm being too irrationally exuberant.

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THE NEW ECONOMY

http://www.businessweek.com/2000/00_05/b3666002.htm

It works in America. Will it go global?

It seems almost too good to be true. With the information technology sector leading the way, the U.S. has enjoyed almost 4% growth since 1994. Unemployment has fallen from 6% to about 4%, and inflation just keeps getting lower and lower. Leaving out food and energy, consumer inflation in 1999 was only 1.9%, the smallest increase in 34 years.

This spectacular boom was not built on smoke and mirrors. Rather, it reflects a willingness to undertake massive risky investments in innovative information technology, combined with a decade of retooling U.S. financial markets, governments, and corporations to cut costs and increase flexibility and efficiency. The result is the so-called New Economy: faster growth and lower inflation.

Most corporate executives and policymakers in Europe and Asia, once skeptical about the U.S. performance, have taken this lesson to heart. There are still widespread misgivings about the U.S. model of free-market capitalism. But driven by a desire for faster growth, combined with a fear of being left behind, the rest of the world is starting to embrace the benefits of a technology-driven expansion.

But a global New Economy will not happen overnight. True, spending on technology, the most visible part of the New Economy, while not yet up to U.S. levels, is on the rise everywhere. Semiconductor sales were up 17% worldwide in 1999, while the number of Internet users in Western Europe and the Asia-Pacific region is expected to more than double over the next five years (chart). Even in a developing country such as India, the software industry is growing at a rate of 50% to 60% annually.

OLD VIRTUES. But the worldwide proliferation of mobile phones and Web accounts by itself will not bring about a more vibrant global economy. What's also needed are dramatic changes in core institutions that will translate technology into faster productivity growth. That means financial markets better able to fund innovation, more flexibility in corporations and labor markets, a faster pace of deregulation, and increased competition (table). "The New Economy is built on old virtues: thrift, investment, and letting market forces operate," says Treasury Secretary Lawrence H. Summers.

There are signs that the process of change has started. With growth picking up in Europe, and Asia emerging from its slump, Merrill Lynch & Co. is forecasting 3.3% world growth for 2000, with inflation slowing down (chart). Corporate restructuring has begun in Europe and Asia, financial markets are being rebuilt to support innovation, and there is more willingness to take risks. "I'm seeing the entrepreneurial response almost everywhere," says Clyde V. Prestowitz Jr., president of the Economic Strategy Institute. "It's not Silicon Valley yet, but there's a lot of ferment." Even in slow-growing Japan, "I think there will be a New Economy," says Toshiba Corp. President Taizo Nishimuro, though he cautions that "it won't be the same as the U.S."

Nevertheless, the process of shifting to a fast-growth track is still in its early stages in most of the world. Europe is at least two or three years behind the U.S., with Asia lagging even farther behind. While there are pockets of entrepreneurial vigor in places such as Finland, it has turned out to be an enormous challenge to reshape cultures to allow more risk-taking in Europe and Asia, where caution is a virtue.

It also takes time for policymakers to adjust to the New Economy. In the U.S., Federal Reserve Chairman Alan Greenspan, an enthusiastic proponent of technology-driven productivity gains, resisted great pressure to raise rates in the face of fast growth and low unemployment. By contrast, the two biggest central banks in Europe, the European Central Bank and the Bank of England, have adopted a policy of aggressively raising rates at the slightest hint of inflation, thus choking demand needed to justify business investment.

Moreover, investment in risky innovation—a linchpin of the New Economy—depends on open global markets, since national markets do not provide a big enough payoff for taking big risks. But as shown by the demonstrations against the World Trade Organization in Seattle, there are groups in every country who feel threatened by free trade. A widespread backlash against globalization could remove a key underpinning of the New Economy.

Ironically, skeptics also worry that a worldwide investment boom could itself trigger global inflation. The reason? Slow growth in Europe and Asia in the 1990s helped keep commodity prices and interest rates low in the U.S., despite strong growth in America. But as the rest of the world picks up steam, that slack is slowly disappearing. By sometime later this year or early 2001, unemployment in the major industrialized economies should drop below the level that triggered inflation in the late 1980s. "That's when you get a reasonable test of the New Economy thesis on a global basis," says Stephen S. Roach, chief economist at Morgan Stanley Dean Witter in New York.

But despite these obstacles, a shift to a U.S.-style economic model is looking increasingly attractive as a guide to development. Based on the American example, technology-driven growth creates many more jobs than it destroys. Combined with big productivity gains, that allows the unemployment rate to fall without igniting inflation—something that would

be welcome in European countries that have long struggled with high unemployment. Faster growth would also ease the long-term burden of funding the retirement of aging populations in Japan and Europe.

OPEN ACCESS. Moreover, the global economy is not a zero-sum game: Faster growth in the rest of the world would have a big payoff for the U.S. as well. Commodity prices might rise at first, but so would exports, bringing down the swelling trade deficits and creating manufacturing jobs at home. U.S. companies would start to see overseas profits accelerate.

And then there's the innovation factor. For corporations, the most important justification for spending big bucks on information technology is that it supports restructuring and cost-cutting. But from a global perspective, a critical benefit of the Information Revolution is that for the first time it makes data available worldwide. Historically it has taken years, if not decades, for even the most important technological and business innovations to spread across national borders.

But that's changing. Now, an engineer in China, say, can log on to the Internet and have immediate access to the treasure trove of data on U.S. Web sites. More important, engineers in developing countries can communicate much more quickly with counterparts in other countries and learn what works and what doesn't. The gains from faster transmission of innovation can add up to 1% to global growth rates, according to research by economists Jonathan Eaton and Samuel S. Kortum of Boston University. That's an enormous potential boost.

But new technology has to be nourished within a larger framework of institutional changes. For one thing, openness of domestic markets to foreign trade is vital for turning innovations into real improvements in output. Without competition from overseas, companies make changes slowly and reluctantly. The big gains only come, according to a 1999 study by Catherine L. Mann of the Institute for International Economics, "when trade encourages and diffuses the fullest uptake of globally available technological innovation by all firms within an industry."

Equally important for sustained noninflationary growth is access to well-run financial markets that can move savings to the most productive investment opportunities, while cushioning the inevitable excesses to which markets are prone. "Even small improvements in the way capital is allocated in an economy have enormous consequences," says Summers. Under a reasonable set of assumptions, an increase in the efficiency of financial markets that decreases interest rates by 20 basis points can add 6% to output over several years.

AMERICAN ADVANTAGE. One area where the U.S. excels is the ability to fund innovative companies at an early stage. U.S. venture-capital spending doubled to more than \$40 billion in 1999. And according to a study by Kortum and Josh Lerner of Harvard business school, a dollar of venture capital produces three to five times more patents than a dollar of research and development spending. "Venture capital is much more potent," notes Kortum.

Other countries in Europe and Asia are trying to catch up. In China, for example, the southern city of Shenzhen has just put together its own \$120 million venture-capital fund in an effort to stimulate local high-tech development—just one of several Chinese cities that has done so. The problem is that the new venture funds in Europe and Asia often

have corporate or government affiliations, which tend to make them less effective. "They don't have the autonomy that we associate with U.S. venture-capital funds," says Lerner.

And even if the funding is available, it's a slow process to adopt a culture that favors risk-taking and makes it easier for new businesses to start up. "This won't take six months," says Bernard P. Vergnes, chairman of Microsoft Europe. "We'll have to start in the schools to change the bankers and the politicians of the future and make them less averse to risk."

It may become easier in the future to entice politicians to jump aboard the New Economy bandwagon, as the political advantages become clearer. In India, for example, the new Bharatiya Janata Party government decided to use the vision of an IT-literate India as an election promise. In Sweden, Bjorn Rosengren, the minister for industry, employment, and communications, is promising broadband in every home. This coming summer, the national government is expected officially to give a contract to develop a nationwide broadband network to Svenska Kraftnat, which operates the main electricity grid.

There is a growing willingness to back away from central control over national economies, even in the most hidebound of regulated industries. The wave of telecom mergers in Europe shows that the old idea of national monopolies is dead. And in Japan, where high telecom charges were holding back e-commerce, Nippon Telegraph & Telephone (NTT) last fall introduced a flat-rate high-usage Internet access service—aimed primarily at small offices and heavy individual users—for \$75 a month in parts of Tokyo and Osaka, the two largest cities. Now it's contemplating cutting the price, possibly by 50%, by the time it launches the service in major centers around Japan in the next year or so.

Nevertheless, the changes are occurring piecemeal. Outside the U.S., there are no definitive signs yet of a productivity acceleration. Countries such as Britain and Japan are actually showing a productivity slowdown, based on measured data. However, it took years in the U.S. before productivity data reflected the Information Revolution, and the lag in the global statistics could be much longer. The reason? Starting in the 1980s, U.S. statistical agencies started adjusting the economic data to take into account the growing power of computers. Most other industrialized countries have not adopted similar methodologies, so that New Economy effects will take longer to show up in the numbers. "It's become quite an issue," says Jon Beadle, a statistician in Britain's Office for National Statistics.

What could stop the New Economy from going global? Simultaneous rapid expansion in Europe, the U.S., and Asia could push up the prices on world commodity markets. But unless there is a cartel that holds supply down—as in the case of oil—such increases are likely to be temporary and not result in lasting inflation. Take steel, for example. With the world's mills operating at close to full capacity, "we are forecasting a shortage of steel," says Peter Marcus, managing partner of World Steel Dynamics, an Englewood Cliffs (N.J.)-based consulting firm. He predicts that prices of hot-rolled band steel could spike up by 50% later this year.

But as buyers and suppliers of industrial products and tools increasingly move onto the Web, it will hold down prices. "Improvement in e-commerce will make the pricing structure more competitive," notes Marcus. Sandvik Coromant, a unit of Swedish specialty steel manufacturer Sandvik, expects 40% of its Scandinavian sales to be via the Internet within three years, allowing it to cut order costs in half.

Similarly, soaring demand for the core products of the Information Revolution— memory chips, microprocessors, and liquid-crystal displays—is likely to push up prices in the short run. Companies such as Gateway Inc. (GTW) have already complained of shortages. But recent experience shows that new capacity can be quickly created in these industries.

The biggest constraint on the spread of the New Economy globally will not be commodity inflation or product shortages. Rather, the main problem will be finding enough highly skilled and computer-literate workers to staff rapidly growing information industries. Europe and Japan will have to find a lot of highly skilled workers—quickly—as they try to beef up their New Economy industries. "The one big inhibitor is the shortage of skilled labor," says Andrew Milroy of International Data Corp. in London. IDC estimates that the demand for skilled workers will exceed supply by 20% in Western Europe in 2002. And engineers comprise some 40% of China's enormous crop of annual graduates.

It will be necessary to draw on the enormous supply of college-educated workers in countries such as India and China. Asia accounts for two-thirds of the global increase in college and other post-high-school enrollments in the 1990s. Indian universities turn out 122,000 engineers every year, compared with 63,000 in the U.S. And engineers comprise some 40% of China's enormous crop of annual graduates.

The growth of the U.S. high-tech industry has been fueled by a steady flow of highly educated immigrants and foreign students. Between 1985 and 1996, foreign students accounted for two-thirds of the growth in science and engineering doctorates at U.S. universities. Most of them planned to stay and work in the country.

Like many other aspects of the New Economy, opening up the doors to foreign workers won't come easily in many countries. But the genie is out of the bottle—now that the U.S. has shown that faster growth is possible, no country will be able to resist it. In the end, the benefits will be well worth the pain.

The Road to the New Economy

Here's what countries must do to get a high-productivity, low-inflation economy

BOOST INVESTMENT SPENDING on information technology as a share of GDP

RESTRUCTURE CORPORATIONS to cut costs, improve flexibility, and make better use of technology

OPEN FINANCIAL MARKETS to direct capital to the best uses

DEVELOP VENTURE CAPITAL and IPO markets to aid innovative companies

ENCOURAGE AN ENTREPRENEURIAL CULTURE and make it easier to start new businesses

INCREASE THE PACE OF DEREGULATION especially in telecom and labor markets

ADJUST MONETARY POLICY to the realities of the New Economy by waiting for inflation to appear before raising interest rates

By Michael J. Mandel in New York, with bureau reports

**THE NEW NEW STRATEGY: DO NOTHING AND DO IT WELL**

February 3, 2000 - NEW YORK OBSERVER

by Michael Lewis

(BLOOMBERG NEWS)-The Internet boom has transformed the idea of the company. A company used to be a group of people who organized themselves for fairly well-defined tasks. But these days the U.S. stock market indulges a new, looser definition. A company is now a group of people who raise capital to do whatever they want to do.

The reason usually given for the new tendency of companies to morph overnight is that they operate in a fast-changing environment. A company should not be expected to predict what it is going to be doing in six months because six months suddenly feels like a lifetime.

That may be true. But it is also true that once an Internet company is considered established, or committed to a line of attack, it loses its allure. It leaves itself open to the sort of hard analysis Internet companies strive to avoid. To be desirable, an Internet company must be slightly unknowable. It must remain forever in a state of pure possibility.

A Bloomberg user recently pointed out what must be one of the purest examples of pure possibility, an Internet company called NetJ.com Corporation. NetJ.com is smaller than most of its Internet cousins. It has a market capitalization of a mere \$22.9 million. Still, its stock price has soared-up seven-fold to \$3.50-since the middle of last year. Six months ago it offered a 5-for-1 stock split. The only hint that NetJ.com is in any way different from most Internet companies is Bloomberg's description of it: NetJ.com currently has no business operations.

Assuming that the Bloomberg machine was mistaken, I went to the documents filed by NetJ.com with the Securities and Exchange Commission. There I found the following confession: "The company is not currently engaged in any substantial business activity and has no plans to engage in any such activity in the foreseeable future." Translated into English: We do nothing and we intend to continue to do nothing. This in itself is unremarkable. Many people do nothing and intend to continue doing so. What distinguishes NetJ.com is the spirit in which it does nothing, which is astonishingly similar to the spirit of many new companies widely viewed as successful.

NetJ.com began life as NetBanx.com, which hoped to collect bad debts for doctors. That didn't work out. So the company gave up, and went into another line of work: searching to acquire or merge with another company that actually does something. For this it claims to be well suited. You might wonder why a company that actually does something would care to merge with one that does nothing, even if it has a gift for doing nothing. You are naïve. The mere fact that NetJ.com is a public company, with a share price that goes up and down every day, apparently makes it potentially desirable to a private company that wants to avoid the hassle and the wait involved in going public. NetJ.com offers itself as a kind of bandwagon, albeit one without wheels.

Such an approach to business would have been risible just a few years ago. Maybe it is

even now. Still, it is hard to say what distinguishes NetJ.com from most Internet companies. A lot of putatively successful Internet companies raise capital first on the pretext of creating one kind of business, only to deploy it in the creation of another. Netscape Communications Corporation invented this approach, pretty much by accident. (Microsoft Corporation took away its original business.) Others now do it more deliberately. The trick, as one prominent Internet chief executive told me, is to keep yourself new. You have to present the stock market with a face lift every three months.

That is the beauty of NetJ.com. By doing nothing, it has avoided ruling out the possibility of not doing something else. As the company explains in an S.E.C. filing, "The company does not intend to restrict its search [for a partner] to any particular business or industry." Its list of possible ventures includes, but is not limited to, "high tech, natural resources, manufacturing, R&D, communications, transportation, insurance, brokerage, finance and all medical related industries." Not even Amazon.com Inc. leaves itself open to so many different opportunities.

Of course there are risks here. Some of them are stated pretty clearly in NetJ.com's filings with the S.E.C. The company has \$127,631 in accumulated losses-tiny by Internet standards. It has "extremely limited assets" and "no source of revenue." But the most telling passage of the risk-disclosures section in NetJ.com's confessional is the one that describes, incredibly, the danger of competition. You might think a company that does nothing, and which is looking to merge with a company that does something, would have the field to itself. But no! As the filing explains, "Management believes that there are literally thousands of 'blank check' companies, many of which have substantially greater financial and management resources." Indeed, there are.



THE THIRD CULTURE - RANDOLPH M. NESSE, M.D. IS THE MARKET ON PROZAC?

http://www.edge.org/3rd_culture/story/100.html

February 28, 2000

The press has been preoccupied with possible explanations for the current extraordinary boom. Many articles say, as they always do while a bubble grows, that this market is "different." Some attribute the difference to new information technology. Others credit changes in foreign trade, or the baby boomer's lack of experience with a real economic depression. But you never see a serious story about the possibility that this market is different because investor's brains are different. There is good reason to suspect that they are.

Prescriptions for psychoactive drugs have increased from 131 million in 1988 to 233 million in 1998, with nearly 10 million prescriptions filled last year for Prozac alone. The market for antidepressants in the USA is now \$6.3 billion per year. Additional huge numbers of people use herbs to influence their moods. I cannot find solid data on how many people in the USA take antidepressants, but a calculation based on sales suggests a rough estimate of 20 million.

What percent of brokers, dealers, and investors are taking antidepressant drugs? Wealthy, stressed urbanites are especially likely to use them. I would not be surprised to

learn that one in four large investors has used some kind of mood-altering drug. What effects do these drugs have on investment behavior? We don't know. A 1998 study by Brian Knutson and colleagues found that the serotonin specific antidepressant paroxetine (Paxil) did not cause euphoria in normal people, but did block negative affects like fear and sadness. From seeing many patients who take such agents, I know that some experience only improved mood, often a miraculous and even life-saving change. Others, however, report that they become far less cautious than they were before, worrying too little about real dangers. This is exactly the mind-set of many current investors.

Human nature has always given rise to booms and bubbles, followed by crashes and depressions. But if investor caution is being inhibited by psychotropic drugs, bubbles could grow larger than usual before they pop, with potentially catastrophic economic and political consequences. If chemicals are inhibiting normal caution in any substantial fraction of investors, we need to know about it. A more positive interpretation is also easy to envision. If 20 million workers are more engaged and effective, to say nothing of showing up for work more regularly, that is a dramatic tonic for the economy. There is every reason to think that many workers and their employers are gaining such benefits. Whether the overall mental health of the populace is improving remains an open question, however. Overall rates of depression seem stable or increasing in most technological countries, and the suicide rate is stubbornly unchanged despite all the new efforts to recognize and treat depression.

The social effects of psychotropic medications is the unreported story of our time. These effects may be small, but they may be large, with the potential for social catastrophe or positive transformation. I make no claim to know which position is correct, but I do know that the question is important, unstudied, and in need of careful research. What government agency is responsible for ensuring that such investigations get carried out? The National Institute of Mental Health? The Securities and Exchange Commission? Thoughtful investigative reporting can give us preliminary answers that should help to focus attention on the social effects of psychotropic medications.

Randolph M. Nesse, M.D., is Professor of Psychiatry, Director, ISR Evolution and Human Adaptation Program, The University of Michigan and coauthor (with George C. Williams) of *Why We Get Sick: The New Science of Darwinian Medicine*.



BUILD TO FLIP

A BATTLE IS UNDER WAY FOR THE NEW ECONOMY. WHICH SIDE ARE YOU ON?

<http://www.fastcompany.com/realtime/phoenix/jcollins.html>

by Jim Collins

from FC issue 32, page 131

"I developed our business model on the idea of creating an enduring, great company - just as you taught us to do at Stanford - and the VCs looked at me as if I were crazy. Then one of them pointed his finger at me and said, 'We're not interested in enduring, great companies. Come back with an idea that you can do quickly and that you can take public or get acquired within 12 to 18 months.' "

A former student was reporting to me on her recent experiences with the Silicon Valley investment community. As an MBA student at Stanford, she had taken my course on building enduring, great companies. She had come up with a superb concept that involved doing just that. But when she took the idea to Silicon Valley, she quickly got the message: Built to Last is out. Built to Flip is in.

Built to Flip. An intriguing idea: No need to build a company, much less one with enduring value. Today, it's enough to pull together a good story, to implement the rough draft of an idea, and – presto! – instant wealth. No need to bother with the time-honored method of most self-made millionaires: to create substantial value by working diligently over an extended period. In the built-to-flip world, the notion of investing persistent effort in order to build a great company seems, well, quaint, unnecessary - even stupid.

The built-to-flip mind-set views entrepreneurs like Bill Hewlett and Dave Packard, cofounders of Hewlett-Packard, and Sam Walton, founder of Wal-Mart, as if they were ancient history, artifacts of a bygone era: They were well-meaning and right for their times, but today they look like total anachronisms. Imagine Hewlett and Packard sitting in their garage, sipping lattes, and saying to each other, "If we do this right, we can sell this thing off and cash out in 12 months." Now that's an altogether different version of the HP Way! Or picture Walton collecting a wheelbarrow full of cash from flipping his first store after 18 months, rather than building a company whose annual revenues now exceed \$130 billion. These entrepreneurs and others like them – Walt Disney, Henry Ford, George Merck, William Boeing, Paul Galvin of Motorola, Gordon Moore of Intel – were pedestrian plodders by today's built-to-flip standards. They worked hard to create a superb management team, to develop a sustainable economic engine, to cultivate a culture that could withstand adversity and change, and to be the best in the world at what they did. But not to worry! In the built-to-flip economy, you can get rich without any of those mundane fundamentals.

We have arrived at a unique moment in history: the intersection of an unprecedented abundance of capital and an explosion of Internet-related business ideas. But, for all of the incredible opportunities unleashed by this combination, there is one monumental problem: The entrepreneurial mind-set has degenerated from one of risk, contribution, and reward to one of wealth entitlement. We all have friends and colleagues – often mediocre friends and colleagues at that – who have struck gold after 18 or 12 or 6 months of work in a built-to-flip company. And we have all entertained the thought "I deserve that too." Here's another thought: When I and a lot of other people began talking and writing about the new economy in the early 1980s, little did we know that it would engender what we most despised about the old economy – an entitlement culture in which the mediocre flourish.

Worse, the creative drive behind the new economy at its best has been superseded by a way of thinking that recalls the 1980s at its worst: a Wall Street-like culture that celebrates the twin propositions that "greed is good" and that "more is better." The hard truth is that we're dangerously close to killing the soul of the new economy. Even worse, we're in danger of becoming the very thing that we defined ourselves in opposition to. Those who kindled the spirit of the new economy rejected the notion of working just for money; today, we seem to think that it's fine to work just for money – as long as it's a lot of money.

Have we labored to build something better than what members of previous generations built – only to find their faces staring back at us in the mirror? Is the biggest flip of all the flip that transforms the once-promising spirit of the new economy back into the tired skin of the old economy?

Invasion of the Mind Snatchers

Built to Last appeared in 1994, and I was more surprised than anyone when the book took off and became both widely read and highly influential. After all, what my co-author, Jerry I. Porras, and I had produced was a huge analytic study of the underlying principles that could yield enduring, great companies. In the book, we drew examples from such 20th-century icons as Disney, General Electric, HP, IBM, and Wal-Mart. These were not hot companies – nor was this a sexy topic.

And yet the book hit a chord, generating more than 70 printings, translations into 17 languages, and best-seller status (including 55 months on the "Business Week" best-seller list). That wasn't planned; we were lucky. The book appeared just as the whole reengineering, everything-is-change-and-chaos wave crashed down – just as people were beginning to ask themselves, "Is nothing sacred? Is nothing timeless? Is nothing sustainable?"

In retrospect, I think that Built to Last gave people three perspectives that they desperately craved. First, it said, "Yes, there are some timeless fundamentals. They apply today, and we need them now more than ever." Second, the book affirmed that the essence of greatness does not lie in cost cutting, restructuring, or the pure profit motive. It lies in people's dedication to building companies around a sense of purpose – around core values that infuse work with the kind of meaning that goes beyond just making money. Third, the book tapped into powerful, albeit latent, human emotions: Readers were inspired by the notion of building something bigger and more lasting than themselves. In quiet moments, we all wonder what our lives will amount to, what we're going to leave behind when we die. Built to Last pointed people toward a path that they could follow if they wanted to leave behind a legacy. The book also rooted its answers in rigorous research, lending hard-nosed credibility to principles that people knew in their gut were true but that they could neither prove nor precisely articulate. It gave voice to their inner sense of what must be right, and it backed up that intuition with empirical evidence and clear, logical thinking.

Finally, there is one other reason why Built to Last struck a chord, and it is the most important reason of all: The book spoke not only of success but also of greatness. Despite its title, Built to Last was not about building something that would simply last. It was about building something worthy of lasting – about building a company of such intrinsic excellence that the world would lose something important if that organization ceased to exist.

Implicit on every page of Built to Last was a simple question: Why on Earth would you settle for creating something mediocre that does little more than make money, when you could create something outstanding that makes a lasting contribution as well? And the clincher, of course, lay in evidence showing that those who opt to make a lasting contribution also make more money in the end.

That was the state of play in 1994, when the book hit the market and captured the public's imagination. Then, on August 9, 1995, Netscape Communications went public and captured the market's imagination. Netscape stock more than doubled in price within less than 24 hours. This was the first of a wave of Internet-related IPOs that saw the value of shares double, triple, quadruple – or increase by an even greater margin – during the first days of trading.

The gold rush had begun. The Netscape IPO was followed by IPOs for such high-profile enterprises as eBay, E*Trade, and priceline.com. Companies with no significant products, profits, or prospects scrambled to position themselves in the "Internet space." The point of this new game was impermanence: Startups flip their stock to underwriters, who flip the stock to individual buyers, who flip the stock to other individual buyers – with everyone looking for a quick, huge financial gain.

In some cases, the results were mind-boggling. When the financial Web site MarketWatch.com went public, on January 15, 1999 (with a quarterly net profit margin of -168%), its basket of public shares flipped over not once, not twice, but three times within the first 24 hours, driving the opening-day price up nearly 475%. The flipping continued to escalate, creating a slew of stunning debuts: From November 1998 to November 1999, 10 companies had first-day price increases that exceeded 300%, despite minimal or no profitability. As Anthony B. Perkins and Michael C. Perkins calculate in their superb book, "The Internet Bubble" (HarperBusiness, 1999), less than 20% of the top 133 "flip" IPOs showed any profits as of mid-1999. In fact, their current market valuations would be justified only if revenues for the entire portfolio of companies grew by 80% per year for the next five years – a rate considerably faster than that achieved by either Microsoft or Dell within the first five years of their IPOs.

Fueling the built-to-flip model has been a nearly unprecedented rise in venture-capital investment: From a steady state of about \$6 billion per year for the 10-year period from the mid-1980s to the mid-1990s, venture-capital investment exploded, reaching more than \$17 billion in 1998. Simultaneously, a flight of angel investors began looking for a piece of the next big flip. As my former student found out, if you have a flippable idea, you won't have much trouble finding capital. It doesn't matter whether the idea is a good one - - whether the idea can be built into a profitable business, or a sustainable organization, or indeed a great company. All that matters is that the idea be flippable: Get in, get out, and get on to the next idea before the bubble bursts.

All of this happened overnight, at the blinding pace of change known as "Net speed." One day, I was teaching eager students, entrepreneurs, and businesspeople how to build enduring, great companies. The next day, that goal had become passe – an amusing anachronism. Not long ago, I gave a seminar to a group of 20 entrepreneurial CEOs who had gathered at my Boulder, Colorado management lab to learn about my most recent research. I tried to begin with a quick review of Built to Last findings, but almost immediately a chorus of objections rang out from the group: "What does 'building to last' have to do with what we face today?"

Scenes from the science-fiction classic "Invasion of the Body Snatchers" ran through my head. I went to bed one night in my familiar world and woke up the next morning to discover that my students had been taken over by aliens.

Built Not to Last

I believe as strongly as ever in the fundamental concepts that came from the Built to Last research. I also know that building to last is not for everyone or for every company – nor should it be. In fact, there are at least two categories of companies that should not be built to last.

The first category is "the company as disposable injection device." In this model, the company is simply a throwaway vessel, a means of developing and injecting a new product or an innovative technology into the world. Most biotechnology and medical-device ventures fall into this category. They function as a highly decentralized form of large company R&D – in effect, serving as external labs for one or another of the large, powerful pharmaceutical companies that dominate the world market. With most such ventures, the only question is which large company will end up owning a given technology. One example: Cardiometrics Inc., a Mountain View, California company that set itself up in 1985 for the purpose of developing a device that could gather data on the actual extent of coronary disease in a patient. (The goal was to reduce the number of people who undergo unnecessary bypass surgery.) Cardiometrics was not built to last, and in 1997 it was acquired by EndoSonics Corp., a heart-catheter company in Rancho Cordova, California that has a distribution network capable of reaching millions of patients. In this case, acquisition by another company made perfect sense - economically,

organizationally, strategically, entrepreneurially. And the acquisition in no way demeaned the contribution that the founders and employees of Cardiometrics had made in developing a vital new technology. For companies like this one, it is eminently reasonable to do the hard work of creating a product that can make a distinctive contribution – and then to sell the product to a company that can leverage it faster, cheaper, and better. In retrospect, we can all point to companies that should have viewed themselves as "built not to last." Confronting that reality would have helped them understand that they were never more than a project, a product, or a technology. Lotus, VisiCorp, Netscape, Syntex, Coleco – all of these companies would have served themselves and the world better if they had accepted their limited purpose from the outset. Ultimately, they squandered time and resources that might have been applied more efficiently elsewhere.

The second category is "the company as platform for a genius." In this model, the company is a tool for magnifying and extending the creative drive of one remarkable individual – a visionary who has immense talent but lacks the temperament required to build an enduring, great company. Once that person is gone, so is the company's reason for being. The best historical example is Thomas Edison's R&D laboratory. The purpose of that enterprise was to leverage Edison's creative genius: Edison would spin his ideas and then flip them out to people who could build companies around them. That's what he did with the lightbulb, and that's how General Electric came into being. When Edison died, his R&D laboratory died with him – as indeed it should have.

Recent adaptations of the genius model include Polaroid (Edwin Land) and DEC (Ken Olsen). And the jury is still out on what may prove to be the most successful and powerful genius platform of all time – Microsoft. Despite the company's profitability and stature, there is no moral or business-logic reason why Microsoft must outlast the guiding presence of Bill Gates.

Not New, Not Even Improved

Like many aspects of the new economy that we celebrate as revolutionary, Built to Flip has been around for a long time. For three decades, entrepreneurs have followed a Silicon Valley paradigm – a set of assumptions about how to handle a startup. The model isn't all that complicated: Develop a good idea, raise venture capital, grow rapidly, and then go public or sell out – but, above all, do it fast. Even 20 years ago, there was an ethic of impatience: A company that hadn't made it big within 7 to 10 years was deemed a failure. There was also an ethic of impermanence: The expectation that a company would be built to last was largely absent from Silicon Valley business culture. Remember Ashton-Tate? Osborne Computers? Businessland? Rolm? Today, none of those outfits exist as stand-alone great companies – but each was a successful example of the Silicon Valley paradigm.

My first encounter with the Silicon Valley built-to-flip mentality came in 1982. While completing my graduate studies, I did a research project on entrepreneurship in the Valley. My target of study was a workstation startup called Fortune Systems. As I explored the internal workings of the company, what struck me wasn't its technology, its business model, or its culture. No, what struck me was what I perceived to be its founders' utter lack of interest in building a great company. Fortune Systems was built to flip from the get-go. Workstations were hot, capital was plentiful, and the stock market was starting to look good for IPOs. I remember asking a member of the management team about plans for building the company after the IPO, and he just looked at me: Clearly, I didn't get it. The point of it all, I concluded, was simply to go public as fast as possible. Even the company's name – Fortune Systems - was a none-too-subtle tip-off to its underlying purpose.

That was almost 20 years ago. Today, we've arrived at a whole new level of flippability. In the old Silicon Valley paradigm, "fast" meant flipping a company within 7 to 10 years. By

today's standards, that time frame seems preposterously glacial. Fortune Systems aside, most people operating within the old Silicon Valley paradigm at least gave lip service to the idea of creating a great company – of inventing products that make a significant contribution and then building a sustainable economic engine around those products. People are now proselytizing the bizarre notion that it's better not to have profits: Today's upside-down logic says that a company will get a better valuation if it has nothing but upside potential – because the casino players care about nothing else. In a recent column in the "New York Times," technology writer Denise Caruso described the phenomenon: "The desire to cash out big is not a new motivating force in the technology industry. But what is striking about today's Internet economy is how much of that money lust is focused on selling business plans for their own sake, rather than planning viable businesses."

The High Cost of the Pursuit of Money

The great irony of all this is that we now enjoy the best opportunity in 100 years to build great companies that fundamentally change the world in which we live. Somewhere out there, a small group of people are laying the foundation for the great, enduring companies of the 21st century. They will be for us what Henry Ford, George Merck, and Gordon Moore were for our predecessors. They will fashion organizations that will dominate the economic landscape and the business conversation for the next 50 years. And 50 years from now, most of today's built-to-flip companies and their founders will be as relevant to the world as the gold diggers who flocked to California 150 years ago. That doesn't mean that those who build to flip won't get rich. Many will – perhaps more people than at any time in modern history. In fact, amassing unlimited personal wealth may well be the defining goal of our era. At no time in history has it been easier to reallocate capital without creating lasting value. Of course, in doing so, we run the risk of missing the best opportunity in decades to create something great.

But so what? What's wrong with Built to Flip run rampant?

If Built to Flip were to become the dominant entrepreneurial model of the new economy, one almost-inevitable outgrowth would be a rise in social instability. At the heart of the American commitment to democratic capitalism is a shared ideal: From the Industrial Revolution to the Information Revolution, Americans at all levels of society, in all walks of life, and in all occupations have bought into the proposition that the United States offers economic opportunity for all. What we've already seen, even in this relatively early phase of Built to Flip, is a growing socioeconomic disparity – and, perhaps most troubling, a perceived decoupling of wealth from contribution. Not only is there an increasing sense that the social fabric is fraying, as the nation's wealth engine operates for a favored few; there is also a gnawing concern that those who are reaping more and more of today's newly created wealth are doing less and less to "earn" it.

But here's the good news: Built to Flip can't last. Ultimately, it cannot become the dominant model. Markets are remarkably efficient: In the long run, they reward actual contribution, even though short-run market bubbles can divert excess capital to noncontributors. Over time, the marketplace will crush any model that does not produce real results. Its self-correcting mechanisms will ensure the brutal fairness on which our social stability rests.

The most significant consequence of the Built to Flip model isn't socioeconomic, however. It is personal. When it emerged in the early 1980s, the new-economy culture rested on three primary tenets: freedom and self-direction in your work; purpose and contribution through your work; and wealth creation by your work. Central to that culture was the belief that work is our primary activity and that through work we can achieve the sense of meaning that we are looking for in life. Driving the new economy were immensely talented, highly energetic people who sought a practical answer to a fundamental question: How can I create work that I'm passionate about, that makes a contribution,

and that makes money? By fostering a culture of entitlement, Built to Flip debases the very concept of meaningful work. And, as is always the case with any form of entitlement, it ultimately debases the person who feels entitled.

Even for those with exceptional talent and drive, money seems to have become the central point of it all. The poster children of the new new economy are people like Jim Clark, the founding genius of Netscape, who is vividly portrayed in Michael Lewis's riveting book "The New New Thing" (W.W. Norton, 1999). Despite his impressive resume, Clark comes across as a man who is stuck on a monetary treadmill: He seems addicted to running after more and more, and then more still, without ever stopping to ask why. Late in the book, Lewis describes a scene in which he presses Clark on this very issue. Earlier, Clark had said that he would retire after he became "a real after-tax billionaire." Now he was worth \$3 billion. What about his plans for retiring? "I just want to have more money than Larry Ellison," he says. "I don't know why. But once I have more money than Larry Ellison, I'll be satisfied."

But Lewis pressed further. In about six months, Clark would surpass Ellison in terms of net worth. Then what? Did Clark want more money than, say, Bill Gates? Lewis writes, " 'Oh, no,' Clark said, waving my question to the side of the room where the ridiculous ideas gather to commiserate with each other. 'That'll never happen.' A few minutes later, after the conversation had turned to other matters, he came clean. 'You know,' he said, 'just for one moment, I would kind of like to have the most. Just for one tiny moment.' " In the biggest flip of all, by running aimlessly on the new-wealth treadmill, we have come to resemble previous generations. In the old economy, our parents got jobs not because of the work itself but because of the pay. In the new economy, we got jobs not just for the pay but also for the chance to do meaningful work. In the new new economy, we've come full circle. This time, though, the drive for money is not about putting bread on the table (in other words, achieving comfort and security); it's about getting a bigger table. It's about keeping up with the Ellisons.

Comparison, a great teacher once told me, is the cardinal sin of modern life. It traps us in a game that we can't win. Once we define ourselves in terms of others, we lose the freedom to shape our own lives. The great irony of the Built to Flip culture is that its proponents see themselves as freethinking people in search of the Holy Grail. And yet, when they do one successful flip, they invariably discover that it isn't enough. So they go off in pursuit of bigger numbers – not one set of options but a whole portfolio of options – in an escalating, never-ending game. If the Holy Grail isn't \$10 million, then maybe it's \$50 million. And if it's not \$50 million, then surely it's \$100 million ... Meanwhile, those who don't play Built to Flip view their "no better than me, but luckier" colleagues with seething envy – a form of self-imprisonment that's even uglier than greed. The Holy Grail will forever elude those who imprison themselves, no matter how gilded the prison. As Joseph Campbell pointed out, the Holy Grail can be found only by those who lead their own lives.

Built to Work

So which are you striving for: Built to Last or Built to Flip? In fact, that's the wrong question. Some companies will be built to last; some won't. Some should be; others shouldn't. Ultimately, that's an artificial distinction.

The real question, the essential question is this: Is your company built to work? The answer rests on three criteria: excellence, contribution, and meaning. Again, consider Cardiometrics. The company may not have been built to last, but in all of its activities, it adhered to the highest possible standards: Instead of relying on expedient studies and marketing hype, it conducted rigorous, costly clinical trials in order to demonstrate the value of its technology. And the company clearly made a significant contribution – to the market, to its investors, and to the lives of patients all over the world. Finally, the people

of Cardiometrics found their work to be intrinsically meaningful: They worked with colleagues whom they respected and even loved, and they pursued a worthy aim to the best of their ability. Built to Flip? Built to Last? Cardiometrics embodies neither of these models: It was built to work.

If the new economy is to regain its soul, we need to ask ourselves some tough questions: Are we committed to doing our work with unadulterated excellence, no matter how arduous the task or how long the road? Is our work likely to make a contribution that we can be proud of? Does our work provide us with a sense of purpose and meaning that goes beyond just making money?

If we cannot answer yes to those questions, then we're failing, no matter how much money we make. But if we can answer yes, then we're likely not only to attain financial success but also to gain that rarest of all achievements: a life that works.

Jim Collins (jcc512@aol.com) is co-author of "Built to Last: Successful Habits of Visionary Companies" (HarperBusiness, 1994). Formerly a lecturer at the Stanford Graduate School of Business, he jettisoned a traditional academic career in order to chart his own path. Today, he operates a management-research laboratory in Boulder, Colorado.



NET SECTOR'S CARNAGE BRINGS A REAL RECKONING

By David A. Gaffen

Staff Reporter

4/12/00 5:00 PM ET

From: TheStreet.com

Right now, a lot of Net investors are probably wishing they could toss their stocks back to the dorm-room geeks who did most of the surfing in the first place. Since peaking at 1333.22 in early March, TheStreet.com Internet Sector index has lost more than 35% of its value, leaving it at levels not seen since mid-November.

The spiral in Internet stocks hasn't been kind to many – even the Internet's "blue-chips," which would presumably include America Online (AOL:NYSE - news - boards), Cisco (CSCO:Nasdaq - news - boards), Yahoo! (YHOO:Nasdaq - news - boards) and Amazon.com (AMZN:Nasdaq - news - boards), are all trading far below their historical highs.

Now, there is precedent for this: Last spring, the index lost nearly half of its value, around the same time technology stocks in general swooned. But Net stocks recovered and were carried to record highs in late 1999 and early 2000 by B2B and other Net plays. This time, it doesn't feel like a seasonal correction. Many believe these stocks are now in the midst of a true shakeout. Even if the Nasdaq Composite Index re-establishes upward momentum, many believe participation from the Net stocks is going to be limited to the leaders in the various sectors of the Internet economy. Many others in coming months are facing the reality of "merge or die" – which won't necessarily help their stocks anyway.

"I don't expect tremendous participation [in a rally] in the mid- to small-cap Internet stocks that at some point will be fighting for survivability," said Barry Hyman, chief market strategist at Ehrenkrantz King Nussbaum. As investors have begun separating top-tier Net names from the rest, it's become clear that many of these companies' strategies aren't exclusive to the Net. America Online, now that it's merging with Time Warner (TWX:NYSE - news - boards), is fast becoming just a large media company; Amazon.com will someday

be seen as just a retailer.

AOL's "Steve Case is a pretty sharp guy, and I think he sent a signal to the Internet sector that we were all overpriced," said Jerry Hegarty, chief analyst at Cape Market Research in Osterville, Mass. "He was the blue-chip of the industry, and if he's cashing in and taking the check, it sends a message to investors that these things are way too frothy."

The other companies that seem poised to survive are those providing services unique to the Net, such as Cisco and Oracle (ORCL:Nasdaq - news - boards), or possibly companies such as Yahoo! B2B stocks don't seem quite as innovative now that existing smokestack industries have figured out how to use B2B for their own purposes. Declining interest in dot-coms has taken the shine out of the "incubator" sector of the Net, companies such as Internet Capital Group (ICGE:Nasdaq - news - boards) and CMGI (CMGI:Nasdaq - news - boards) that look to invest in other Net stocks.

Been Down This Road Before

Analysts liken the revaluing of these stocks to what happened to biotechnology in the early 1990s, and previously to communications, railroads, automotive and any other industry that had wide-ranging economic impact. While the industry itself may have produced great technological and social change, it doesn't mean every company prospered – or survived.

This isn't something that analysts have failed to acknowledge. Well-known Internet bulls such as Henry Blodget of Merrill Lynch expect 75% or more of existing Net companies aren't going to last. But 1998's and 1999's euphoria yielded many companies that managed to get money through an initial public offering, and now investors are stuck with dogs. So while there are always a few eager investors at the ready to buy Cisco, the same can't be said for stocks such as drkoop.com (KOOP:Nasdaq - news - boards).

That situation will only get worse in the coming months, as companies that went public during fall's euphoria will foist more shares upon the public when lockup periods (when insiders cannot sell shares) end. HomeStore.com (HOMS:Nasdaq - news - boards), for example, went public in August with an offering of 7 million shares and peaked at 122 1/4 in January; it will dump up to 43 million more shares on the market in two weeks. The stock closed today down 7 13/16, or 25%, to 23 1/2.



WALL STREET WITCH DOCTORS

Slate Magazine

http://slate.msn.com/framegame/entries/00-04-18_80841.asp

By William Saletan

*William Saletan is a **Slate** senior writer.*

Posted **Tuesday, April 18, 2000, at 4:00 p.m. PT**

Last week the stock market went down. This week it went back up. You and I may not understand why, but financial experts do. The market, they explain, works just like a bubble, a beating, a yo-yo, a fever, a road, an ocean, or whatever other metaphor appears to make sense that day. These analogies vary from analyst to analyst and from day to day, since each analogy favors a particular investment theory and accounts for only part

of what's going on. If you're not a professional stock market analyst, here's a glossary of metaphors that will help you play one on TV.

1. Blizzard. Many analysts wonder whether the market will "weather the storm." Others say it's not just a storm, it's a "blizzard." If we're not careful, the blizzard will "snowball" and perhaps, according to the *New York Times*, "touch off waves of selling in Asia's smaller markets," causing a "landslide." How would our blizzard make waves leading to landslides in Asia? The *Times* doesn't say. But a CNBC analyst suggests that the blizzard's "snowballing" would be caused by investors "bailing out." Others prefer to analyze the latest sell-off as a nuclear accident or explosion. The *Times* worries about its "shock waves" and "fallout" abroad. A CNBC anchor expresses relief that a "Monday meltdown" was averted because a "big downdraft in stocks failed to materialize." Had that downdraft materialized, God knows what would have happened.

2. Bubble. To a child, bubbles are harmless. But to a financial expert, they are terrifying. The Nasdaq's growth since last fall "looked like most of history's other great bubbles, all of which ended in terrible carnage," warns the *Los Angeles Times*. "Bubbles, as they burst, have a way of causing damage far beyond their own shadows." The *Washington Post*, on the other hand, sees hope in the bubble's explosion: "For the economy as a whole, the air escaping from the stock market bubble could prove to be a cooling breeze that tempers a red-hot consumer spending spree."

3. Gravity. Many tech stocks have been "high fliers" and now face the inevitable "return to earth." A newsletter publisher explains to the *Post* that investors found themselves "high up in the sky and they began to look down and say, 'Whoaaa!' It gets to a point to where ... maybe, like the Wizard of Oz, somebody draws the curtain." Another money manager cautions investors not to buy stocks just yet, because "an elevator dropping from the 100th floor to the 50th floor is not the bargain basement."

4. Bounce. Optimistic advisers urge you not to worry about gravity. They say you should buy because the market will "bounce" upward again. "You want to buy across sectors to make sure you participate in the rebound," a financial planner tells the *Wall Street Journal*. Once the market has bounced, however, optimists don't want to continue the metaphor, since it implies that gravity will negate the bounce. So they resort to animate metaphors instead. "Many more times than not, what you get is a bounce, and then another pullback," says one strategist.

5. Floor. What does a falling market bounce off of? Why, a floor, of course. And what does this floor consist of? A "trend line." According to an analyst interviewed on CNBC, Monday's rise in stock prices is "an initial bounce off of an extraordinarily compressed, oversold condition. The Nasdaq happens to have bounced right off the trend line from the 1998 lows." The only question is where exactly the floor is. "It used to be that someone was bold enough to jump in and buy. But lately, there has been so much uncertainty about where the floor is," frets one broker. A CNBC pundit counsels skepticism: "Some of the blue-chip tech stocks like Intel [are] helping to put a floor under the Nasdaq. We'll see whether the floor is a real floor or a false floor."

6. Support level. Investors too ignorant to see the floor need to be taught to look for it at the "support level." And what, exactly, is a support level? According to a *Barron's* writer, "That essentially means it's at a level now where buying has come in before [and] acted as a support point." And where is that point? "It's actually been kind of sticky," says the writer. "So maybe [the market] won't go too much further below this."

7. Bottom. Anyone who still doesn't understand where the "support level" is can find it at the "bottom." The "bottom" is the place where, in retrospect, the market stopped falling. Throughout the latest market slide, TV anchors, fund managers, and commentators have been desperately trying to "find a bottom." "Was that a bottom on Friday?" a CNBC anchor asks one strategist. Even if a bottom is found, it may be too low. A strategist interviewed by the *Journal* worries that the Nasdaq might "find a bottom somewhere between 2900 to 3000." He counsels his clients to "avoid the temptation of being a hero here and picking the bottom."

8. Traction. In case the market doesn't find a bottom, optimists hope it will at least find "traction." The Nasdaq is "trying with its fingernails to hold on into positive territory," says a CNBC anchor. The *Los Angeles Times* points out hopefully that Friday, the Dow "clawed about 100 points higher by the close."

9. Rest stop. Pessimists worry that if the traction doesn't hold, it will turn out to be just a "rest stop." Whether the Nasdaq's "modest moves" upward signify traction or "simply a rest stop before a trip to lower levels" is "anybody's guess," warns one commentator.

10. Dip. If stocks fall into a rest stop without bouncing, perhaps they're just in a "dip." In that case, you should "buy the dip." How do you know it's a dip rather than an abyss? The same way you recognize a dip in the road while driving. First, there's a sign in front of it—in this case, posted by brokers and fund managers—assuring you that it's just a dip. Second, after you've gone through it without falling to your death, you have proof that it was just a dip. So go ahead and buy, says a newsletter editor, and stay with the dip no matter how far down it goes: "Sometimes, the dip extends more deeply than you expect, so you may have to go through a long period when you're underwater. Over the long haul, though, it should work out well." (Following the dip might lead to a collision of metaphors. The *Journal* points out that recently "investors inclined to 'buy on the dips' have run up against others selling on the rebounds.")

11. Yo-yo. In case stocks don't bounce, they might be rescued by the market's invisible bungee cord. The Nasdaq "opened markedly lower" Monday, according to a CNBC anchor, "but then began to snap back." Why? It's a "yo-yo market," the anchor explains. "Not a strong bounce-back rally, but not the slide that some had anticipated."

12. Falling object. If you try to grab a falling stock, and it fails to bounce or snap back, it might hurt you. Pessimists caution you to wait. This week's stock buyers might "catch a falling knife," one expert explains to the *New York Times*. "One cannot help but be a little sober about the playing field in which we find ourselves." To avoid the knife, stay off the playing field.

13. Tide. When the market goes haywire and investors get nervous, advisers assure them that the market is cyclical and predictable, just like the sea. All you have to do is wait for the "tide" and let it "buoy" your stocks. When the tide fails to show up, the advisers amend the analogy. A year ago, "the tide was coming in so fast that all you had to do was be a boat and you'd rise," a tech stock strategist explains to the *Journal*. "But now we've packed the harbor with thousands of boats, and the tide isn't coming in so fast anymore."

14. Dance. Some gurus analyze the market as a dancer, alternating its "moves to the upside" with "moves to the downside." "The markets are bouncing today," says a CNBC pundit. "After what had been several stutter-steps and several attempts to rally, we are seeing a more decisive move to the upside."

15. Injury. Pessimists worry that if the market isn't careful, all this bouncing and dancing could break a bone or dislocate a joint. "What if, though, the stock market does more than what it did just last week? What if indeed it falls out of bed in a more meaningful way?" a CNBC reporter asks a money manager. The money manager replies that it's OK because the Federal Reserve Board "has reacted very well to dislocating markets before."

16. Wringing. Optimists reason that if a sell-off doesn't dislocate the market's shoulder, it will probably heal the market by "exhausting" and "wringing out" its "speculative fever." Every once in a while, the market needs a "blowout" to "knock out the tar." "Professional investors and analysts like to see a level of panic that indicates that ... the weak hands holding stock have been shaken out, [that] they've thrown in the towel," says one commentator. "What that means is there's more money on the sidelines, there's more buying power that can flush back into the market." Fortunately, the human plumbing analogy ends there.

17. Beating. If you own stocks, it's painful to see them beaten. But if you don't own them yet, you want to see them beaten as badly as possible. Market strategists advise you to look for "battered" and "hard-hit" stocks and "pick off the beaten-down technologies that have good futures." The harder they're hit before you buy them, the better.

18. Psychology. After all the bouncing and beatings and wringing out, the market needs therapy. It is "manic" and can only be explained in terms of "sentiment" and "broken psychology." "Sometimes [markets] go down because psychology is broken. That's been the case today. It takes some time for psychology to regroup," a financial adviser tells CNBC. Another advises the *New York Times* that if last week's sell-off has "broken the psychology that every dip is a buying opportunity," it might "take away a cushion for stocks." Without the cushion of that sentiment, obviously, stocks won't bounce.

If the market must bounce on a cushioned floor, and that floor rests on a psychology that might be broken by all the bouncing, then what, in turn, does the psychology rest on? It rests on a bottom, of course. "A lot of the sentiment indicators, I think, need to get a little more fear in them before we feel more confident in calling it a bottom. It's only the short-term momentum that got oversold enough to bounce," one market expert from Merrill Lynch told CNBC. "We need a couple more doses of fear here before we get the right kind of numbers ... where we have overconfidence in the bottom."

To find out where the market's head is, in other words, look for its bottom. That's what we thought.



FROM THE NEWEUROPE.COM MAILINGLIST

April 20, 2000

// – CONTINUING DISCUSSIONS – //

From: Tony Hackett <tony@easily.co.uk>

Subject: Market Ups and Downs

Chris Anne Wheeler wrote

> The stock market has been wild in the US. Tech stocks are being
> beaten to a pulp. The job market is showing signs of interesting
> times to come. I would like to know how Europe is faring these
> days. Are you seeing any signs of weakening economies in specific
> countries?

We're all taking a bashing in the markets but the most interesting 'meltdown' is the US market. The US is seen as being the front-runner for e-commerce and for this market to be suffering makes us all shudder. But should it? I believe the bubble has burst but the bubble was made of hype anyway. The same people who caused the bubble have started the run on the markets to burst the bubble (the media) and I think it's a good thing.

Money has been thrown here and there on a wing and a prayer and once the flames have ebbed away, from the ashes will rise Internet companies with a sound foundation and business plan. Money will be invested the old fashioned way, you remember, companies who are showing profits NOW and who are looking to be at the pointy end of technology.

Don't let the market volatility stop all you start-ups because it still costs the same to start your Internet company, negligible compared to other business mediums, and your idea could be the one to profit mankind and make you 'squillions'. You may not be able to become a millionaire overnight but you should have to work hard for this, shouldn't you?

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THE JOY OF STOCK ANALYST LINGO

Slate Magazine

<http://slate.msn.com/code/Moneybox/Moneybox.asp?Show=4/25/00&idMessage=590>

By Rob Walker

Posted **Tuesday, April 25, 2000, at 2:14 p.m. PT**

I spend a lot of time in a parallel universe where, because there is no Elián Effect on stock prices, there is no Elián. One of the things that I enjoy about this universe is the jargon. I enjoy it, I guess, for the same reason I was made happy by figuring out the infield-fly rule as a baseball-watching kid: There's something satisfying about arcana. Sometimes I forget that not everyone inhabits this universe. About a year ago, I was working on a story from which I was planning to remove the hoary cliché "catch a falling knife," when I figured out that my editors were fascinated by it.

The "Frame Game" recently presented a very useful collection of market jargon and metaphors, which are, of course, absurd on close inspection. I like them anyway. ("Catch a falling knife" is one of the ones explained.) Many of these metaphors come from attempts to explain the movements of the broader market, and many—such as floors,

support levels, and trend lines—are terms borrowed from technical analysis, which seems to have gotten popular because it sort of seems easy.

But there is jargon within jargon. Attempts to explain the broader market are really just fumbles and grasps to put phenomena into words after the fact. The only thing the words cover up is that, really, no one can explain a given market move on a given day. I've become partial to the jargon that is one level down from that, the obfuscation and euphemism of the companies and the analysts who cover them.

Press releases seem to have become such a critical part of the language of the markets that entrepreneurs have more or less adapted some of the most vacant PR phraseology. "Our goal is to increase shareholder value," for instance, means "Our goal is to run up the stock." And the familiar addendum "We want to build lasting value," is a pleasant way of saying "We don't want the stock to collapse before our options vest." A company that brags of being "very high growth" is almost assuredly a company that is "extremely small." And the assurance that "We have an experienced team" now rarely means more than "We've all had jobs."

What analysts are generally trying to do is come up with very highfalutin ways of saying that they aren't really sure what a stock is going to do. Thus the simple three-tier menu of recommendations—buy, sell, or hold—has been largely done away with. For starters, pretty much no one says sell—in 1999 about 1 percent of all analyst recommendations on stocks were sells. So, in a form of grade inflation, "sell" is now expressed as "hold," though even hold recommendations are pretty rare, and so, for that matter, is the use of such a clear term.

It's not uncommon to have five levels of opinion about a stock, expressed with words and phrases like "accumulate" and "market perform." The meaning varies from firm to firm, but in some cases, at least, it is possible to downgrade a stock from buy to accumulate, leaving the onlooker to wonder—and I'm not the first onlooker to wonder—how one goes about accumulating a stock without actually buying. Suffice it to say that, depending on the analyst, a stock downgraded to "market perform" is often a de facto hold, which is a de facto sell. The salient thing is often the fact that a stock has been downgraded at all, though that tends to happen *after* it has fallen, not beforehand, as you might suppose. The trouble, as a financial journalist recently pointed out to me in an e-mail, is that analysts sometimes have what they call "reduced visibility" on a company, which is to say they have no idea what's going to happen.

But the ultimate in jargon is when you can work this gobbledygook into your life, which has become distressingly easy in the current money culture. Just today I had lunch with an entrepreneurial type, and I joked that perhaps the best way for a certain massive societal problem to be solved would be for him to take care of it himself. He laughed and said, "Doesn't scale." What he meant by that—the term evolved out of building Web sites meant to "scale," or handle millions of users—is "I couldn't do that alone." He could also have said, "Dude, not enough bandwidth." That's a popular one now, and it means the same thing.

Similarly, I used to work with a somewhat market-obsessed guy who had thoroughly soaked his day-to-day conversation with Wall Street terms. So if he'd had a good date the night before, he would tell us the evening, "Came in way above expectations." Or, if he thought that asking for a day off would hurt his reputation with our bosses, he would borrow language an M&A lawyer might use if skeptical about a particular acquisition: "That would just not be accretive to earnings."

As I said, I love this sort of thing. I don't want the whole world to talk this way, but I'm actually glad someone does. It sure beats talking about Elián.



ASIA/PACIFIC: A JAPANESE HIGHFLIER PLUMMETS, AND INVESTORS CAN'T REACH THE EXITS

By Justin Lahart
 Associate Editor
 4/27/00 7:42 PM ET

For a fund manager, there is nothing quite so demoralizing as seeing a big position on your book blow up.

Whether it is Cendant, (CD:NYSE) Rite Aid (RAD:NYSE) or Lucent (LU:NYSE), it all comes to the same thing. There will be the calls from clients and the meetings with your boss. There will be the long nights spent thinking about how the signs were there for you to see and of how you should have at least trimmed your position. And you'll do that thing you always do when disaster strikes, flipping back and forth between the before and the after: "Yesterday, I was up 13%, today I am down 4%..."

Yet, as awful as going through a blowup is, at least if you are a U.S. fund manager you can make the mote on your screen go away. You peel out the unwanted thing and plant what capital there is left in some better pasture. For many fund managers in Japan, who for four weeks have been unable to exit former highflier Hikari Tsushin, that is an enviable thing. They Kill Bunnies, Don't They?

Even in last year's highflying Tokyo stock market, Hikari Tsushin shares stood out, rising in excess of 2,600% to close out 1999 at 207,000 (\$1,953). Nor was the run over for the mobile-phone-seller-cum-Internet-incubator – it would eventually top out at 241,000 on Feb. 15. Then, disaster.

Rumors about the company, and a series of unfavorable business articles (one of which alleged that its president, Yasumitsu Shigeta, fed baby rabbits to his pet python) began to appear in March. By mid-month, Hikari shares had plunged to 88,500. Shigeta held a news conference where he denied rumors that the company was being investigated by regulators, that the company had cooked accounts to reach targets, and that his relationship with Internet giant Softbank, whose board he sat on, had soured. He also denied that he had died. In addition, he said that sales and earnings were "proceeding smoothly" – something that turned out not be true. On the evening of March 30, the company announced that it had posted an operating loss of 13 billion for the fiscal half-year ended Feb. 29, compared to expectations of a 6 billion profit.

"He broke faith with the people after announcing the loss," says Jim Bogin, portfolio manager of the Matthews Japan Fund. "He had always emphasized how profitable he was." Bogin had owned Hikari, but cleared his position after the stock tripled to 43,000. As the stock more than quintupled from there, he felt pretty dumb. But selling Hikari turned out to be one of the smartest decisions he ever made.

There are daily price limits set on how far up or down Tokyo stocks can go. This is because – according to the Tokyo Stock Exchange – it is feared that distorted stock price formations might cause investors to make inappropriate investment judgements. On March 31, Hikari fell by its daily limit of 5,000 to 73,800. Or rather, as the ask price for Hikari fell by its daily limit – there were no takers. And it has fallen by its daily limit every

day since then, with only sporadic buying. Last Monday was the only day in the past month when any actual trading got done. A pretty respectable 1.26 million shares changed hands before buying was exhausted, but even then many investors weren't able to exit their the stock.

"We have one account that has a little position that we're obviously trying to get out of at any price," says David Smith, a fund manager at Newport Pacific. Smith said he was able to sell about 40% of his Liberty Newport Japan Opportunities Fund's Hikari stake on Monday. He hopes to clear the stock entirely from his books before the fund is opened to Japanese investors in a few weeks.

Smith wishes that he could have cleared out of Hikari when it first announced the shortfall and that he could have taken what money he could and put it to work someplace else. Instead, that capital is dead in the water and will be until Hikari reaches whatever level it needs to reach to trade actively again. He's wishing for a change in the rules.

"Hopefully, the authorities are going to look and say, 'Maybe we can adjust this system,' " he says, reckoning that individual investors – the ones who are supposed to be protected by the rules – are the ones getting hurt the most. "Think of all the people on margin. They can't do anything about liquidating their positions."

Margin is the practice of borrowing from a broker to buy a certain stock. If a stock goes down too much, the broker worries about protecting its principal and puts out a margin call, which requires the borrower to put up additional cash. If the borrower doesn't have the cash to put up, it will typically liquidate the borrower's position. In Hikari's case, however, that's not possible, so brokers are liquidating investors' other positions. After seeing individual investors hemmed in like that, a review of the rules seems appropriate.

Nothing happens quickly in Japan, though, and until the rules change, investors putting money into Japanese mutual funds – particularly funds that invest in growth areas – need to know that there is some additional risk. While funds with investments in Hikari probably cannot be hurt much more – it has fallen by 94% from its all-time high, making what were formerly large positions small – there are plenty of other highflying stocks trading in Tokyo. One can easily imagine more Hikari Tsushins in the future and more funds caught with stock on their books that they can't get out of.

"In Japan, the whole cycle for this Internet stuff was a lot more compressed," says Bogin. "Some of these things went far further in a smaller amount of time than in the U.S."



MARGIN INVESTORS LEARN THE HARD WAY THAT BROKERS CAN GET TOUGH ON LOANS

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Money & Investing

By RUTH SIMON
Staff Reporter of THE WALL STREET JOURNAL

For many investors, Friday, April 14, was a frightening day, as the Nasdaq Composite Index plunged a record 355.49 points, or 9.7%. For Mehrdad Bradaran, who had been trading on margin – with borrowed funds – it was a disaster.

The value of the California engineer's technology-laden portfolio plummeted, forcing him to sell \$18,000 of stock and to deposit an additional \$2,000 in cash in his account to meet a margin call from his broker, TD Waterhouse Group, to reduce his \$52,000 in borrowings. At least the worst was over, Mr. Bradaran figured, as tech stocks soared the following Monday – only to learn Monday evening that Waterhouse's Santa Monica, Calif., branch had sold an additional \$20,000 of stock "without even notifying me," he says. His account, which had been worth \$28,000 not including his borrowed funds, is now worth just \$8,000, he says. "If they had given me a call, and I had deposited the money, I would have gained back at least half" of the \$20,000 in losses when the market rebounded, he claims.

Mr. Bradaran is one of many investors who have discovered that buying stocks with borrowed funds – always a risky strategy – can be riskier than they ever imagined when the market is going wild. That's because some brokerage firms exercised their right to change margin-loan practices without notice during the market's recent nose dive. The result: Customers were given only a few hours or less to meet a margin call, rather than the several days they typically are given to deposit additional cash or stock in their brokerage account, or to decide which securities they want to sell to cover their debts. And some firms, such as Waterhouse, also sold out some customers' accounts without any prior notice, as they are allowed to under margin-loan agreements signed by customers.

Melissa Gitter, a Waterhouse spokesperson, says it is the firm's policy not to discuss individual customers. But she acknowledged that some investors were sold out without notice. "We acted prudently and did what we believed was in the best interest of customers and the firm," she says. "All the actions were in accordance with the firm's margin agreements." This tougher posture regarding margin calls comes at a time when investors have been borrowing record sums to buy stocks – \$278.5 billion at the end of March, according to New York Stock Exchange figures. Though margin lending has been highly profitable for brokers, regulators fear that firms could wind up on the hook if falling share prices leave customers unable to pay off their debts.

In part, brokerage firms are seeking to avoid a repeat of past difficulties in collecting margin loans from customers. After the 1987 stock-market crash, brokerage firms were

"chasing customers ... because they didn't act quickly enough," notes Richard Ryder, editor of Securities Arbitration Commentator, a Maplewood, N.J., newsletter. "It's the memory of 1987 that's got regulators standing at attention and calling brokers to heed."

Investors generally can borrow as much as 50% of the value of their stocks. Once the purchase is completed, an investor's equity – the current value of the stocks less the amount of the loan – must be equal to at least 25% of the current market value of the shares. Many brokerage firms set stricter requirements. If falling stock prices reduce equity below the minimum, an investor may receive a margin call.

The actual amount an investor must fork over to meet a margin call can be a multiple of the amount of the call. That is because the value of the loan stays constant even when the market value of the securities falls. Many investors were stunned by their firms' actions, either because they didn't understand the margin rules or ignored the potential risks. There aren't any public statistics on the number of investors affected, but the margin calls accompanying April's market roller coaster have clearly hit a nerve.

"My phone has been ringing off the hook with these margin issues," says Brian Carlis, a Princeton, N.J., securities lawyer who received calls from investors wondering if they had a claim against their brokerage firm. Disgruntled investors also have been sharing tales of woe on Internet message boards. William Nelson, a real-estate salesman in South Brunswick, N.J., says he called Waterhouse on April 14 to check on the status of his account, which had received margin calls earlier in the month when stock prices dropped. Mr. Nelson says he was told that he needed to immediately bring in \$2,533. But when he arrived at his Waterhouse branch office in Iselin, N.J., later that morning with \$2,600, he was told that he actually owed \$6,000.

Mr. Nelson says he couldn't come up with the cash immediately because he had to be at work by noon but offered to transfer funds from another online brokerage account or from a dividend-reinvestment program. Waterhouse told him there wasn't enough time. When he checked the value of his account at 2 p.m., Mr. Nelson says he found that Waterhouse had liquidated his account and that he owed the firm \$2,200. "I understand they have to protect their interest, but they gave me no chance to protect my interest," he says.

Another Waterhouse customer, Mohammad Shaikhsaheb, an electrical engineer living near Los Angeles, complains that his account was liquidated without notice as plunging stock prices drove the value of his equity below what he owed. When he called to complain, he says, a Waterhouse employee told him that "even if we wanted to give you a call, there were about 20,000 people [with margin calls] and we couldn't have done that."

Ms. Gitter says Waterhouse's policy is not to disclose margin statistics. She says Waterhouse "reached out to customers whose equity levels were in violation of the 25% requirement." She adds, "we prioritized our efforts based on the size of the margin call, with priority calls made to those whose [margin] calls exceeded \$10,000." Ms. Gitter says "a special pop-up screen" was put in place after Friday's plunge that automatically notified customers that margin calls were due immediately. "In cases where customers did meet their margin obligation [but had their accounts liquidated anyway], we already have, and will, adjust the account accordingly," she adds.

Some clients of other brokerage firms were affected as well. Larry Marshall, the owner of an executive-search firm who lives in Malibu, Calif., says Merrill Lynch & Co. told him the

Monday after the market's drop that he would have to meet an \$850,000 margin call immediately. Normally, he says, the firm gives him three to five days to come up with additional funds. Because of falling share prices and margin calls, Mr. Marshall says, the value of his account has dropped from roughly \$10 million to about \$5 million. "They pulled the rug out from under me," he says.

A Merrill Lynch spokeswoman says "as a matter of good business practice in periods of extreme volatility, offices may be asked to exercise the most prudent measures – clearly outlined in our margin policy – to responsibly manage the risk associated with leveraged accounts." Clearly, a lot of investors would have benefited from additional time because of the market's sharp rebound. But they, and the brokerage firms on the hook for their loans, could have been in even worse shape if stock prices had continued to plummet.

Philip De Vries, a software writer in Dover, N.H., says Fidelity Investments notified him the weekend after the market's collapse that he had until noon to come up with additional cash and until 2 p.m. to sell stocks to meet a margin call. "In the past, I've been given five days to meet [margin calls]," says Mr. De Vries, who met the call by depositing additional cash and selling stock. "In this case, I was basically given five hours to sell and three hours to deposit funds."

Mr. De Vries, who invests heavily in large-cap technology stocks, says the call was triggered by changes in the firm's borrowing requirements. "In the 10 years I've been doing this, this is the first instance I recall there's ever been a change," he maintains. Fidelity spokesman James Griffin says it is the firm's policy not to discuss specific customer accounts. "From our perspective, it's important to remember that margin loans are demand loans that we can call at any particular time," he says. "This is a standard industry practice we remind our customers about. We were in over the weekend and made every effort to accommodate our customers by providing as reasonable a time as we can consistent with market conditions to meet margin calls. In the case of that particular volatility ... a reasonable notice period was one day vs. the three-day notice period we typically provide in less volatile times."

Securities lawyers say it is difficult, though not impossible, for investors to recover damages when brokers sell them out to meet margin calls. "While the firms can do pretty much anything they want it has to be reasonable," says New York securities attorney David Robbins. "If a customer can [show] I had the money, but they wouldn't give me any time to come up with it, that's a win."



THE FALL OF A DOT-COM

Blinded by Net fever, big-name investors poured millions into Craig Winn's chaotic Value America

http://www.businessweek.com/2000/00_18/b3679001.htm

By John A. Byrne

On a balmy day last April, Craig A. Winn, a onetime housewares salesman, momentarily became a dot-com billionaire. As the stock in his e-tailing startup, Value America Inc. (VUSA), ascended from its initial public offering price of \$23 a share to a giddy high of \$74.25 on Apr. 8, 1999, it became clear that the charismatic entrepreneur had tapped

into the mind-set of the New Economy. Investors flocked to his idea of a "Wal-Mart of the Internet" where shoppers could order jars of caviar along with their gas barbecues or desktop computers. And why not? Winn had already signed up some big-time investors, including Microsoft co-founder Paul Allen, financier Sam Belzberg, and FedEx Chairman Fred Smith, whose names added cachet to the venture.

When the stock settled down that day at \$55 a share, the three-year-old, profitless company was valued at \$2.4 billion. Yet the 45-year-old Winn maintains that he was overcome with melancholy as he watched shares trade that first day. "I felt fear and anguish," he said recently. "I believe the company was genuinely worth the IPO value. When the stock shot up to three times the IPO price, I recognized that this was not reasonable. You are never closer to your greatest failure than when you are at the moment of your greatest success. I was very humbled by it."

Winn's unease was prescient. In the 12 months since the IPO, Value America has gone from euphoria-inducing heights to a struggle for survival. In late March, auditors expressed doubt that the company could survive as a going concern. Nearly half of Value America's 600 employees have been fired. With the stock now trading at \$2 a share, investors have lost millions. The obligatory shareholder class action has been filed. And Winn, founding CEO and entrepreneur extraordinaire, has been ousted by an all-star board that includes Fred Smith, former Newell Rubbermaid CEO Wolfgang Schmitt, and celebrated headhunter Gerard R. Roche. "A year ago," bemoans one insider, "we were infallible. Now, it's a complete crash and burn."

"NOT OVER YET." The company says it is in "advanced discussions" with potential investors and expects to gain sorely needed cash within a few months. "Rumors of its demise might be a little premature," says William D. Savoy, a Value America director who manages Paul Allen's personal finances. "It's not over yet."

Value America's rise and fall is emblematic of an era of unbridled optimism and outright greed. Possibly only during a period of unprecedented valuations and a seeming suspension of the rules of finance could someone of Winn's background amass the following and the finances to get a company off the ground as quickly as Value America took flight. For most of his stint at the company, Winn, who collected a salary of \$295,000 a year, had little of his own money at risk. His business experience consisted mainly of leading another public company into bankruptcy. His technology experience: nil. Winn and his company practiced New Economy values with a vengeance. A massive ad budget was spent well in advance of any profits. Yawning losses were excused as a necessary evil in the pursuit of market share. There was a rush to take an untried company public at the height of the investor frenzy for new dot-com stocks.

But the Value America saga goes beyond the excesses of the Internet era. Serious questions are also being raised about alleged gross mismanagement, abuse of corporate funds, and the sometimes erratic and bizarre behavior of Winn, who asked that the money-losing company finance his personal jet and who dreamed out loud of running for President. "There have been a fair amount of decisions and expenditure of funds that were questionable," says director Schmitt. (Winn counters that the plane was needed because of the company's location in Charlottesville and that the board approved of it.) "Everyone figured he was more a genius than crazy," says a former senior executive at Value America. "As time went on, everybody got more concerned."

One thing Craig Winn, a salesman at heart, could do is spin a good tale. His story of a

"frictionless" business model was perfectly attuned to the times. Winn's cyberstore was supposed to harness every efficiency promised by the Web to create a new paradigm in retailing. His breakthrough idea? The store would carry no inventory and ship no products. Instead, it would pick up orders from consumers and immediately transmit them to manufacturers who would ship IBM computers and Knorr soups, Panasonic televisions and Vicks Vapo Rub, direct to customers. It featured more than 1,000 brand names, many in multimedia presentations online.

The story was mesmerizing, the execution somewhat less so. Insiders say Winn tried to do too much, too soon. Computers crashed. Customers waited and waited to get orders filled. Discounting and advertising drained cash and wiped out any chance of profitability. Returned merchandise piled up in the halls of the company's offices. "They got going too fast," says Smith. "They got unfocused." Winn disagrees. "In the Internet world, no one is willing to invest in a company that grows slowly," he argues. "Go find an Internet company that said it was going to be methodical." In retrospect, the story's most surprising aspect is how long the public—and the board members—continued to believe in Winn.

POLISHED PITCH. For the boyish-looking entrepreneur, with his sandy hair and perpetual smile, the world of the Net seemed a natural fit. He was always a man, say friends and colleagues, who looked to the future, and he certainly had a way with words. Associates say that Winn would drive to work with the radio off, practicing the slogans that would give his sales pitches a New Economy resonance, even if the precise meaning was unclear. He grandly called his e-tailing venture "the marketplace of the millennium." He described his concept as "alliances of consumption with alliances of production." Above all, he intoned, Value America permitted "friction-free capitalism." A colleague said Winn called his practiced pitches "the Art of Emphasis."

Winn quickly embraced the worst excesses of the New Economy, particularly the notion of building a business empire where sales—not profits—came first. He spent money lavishly, running through the company's cash as if it were unlimited. In an era when not-yet-profitable dot-coms burned through giant ad budgets, Value America spent even more, second only to E*Trade Group in the size of its marketing budget in the first nine months of 1999. For the year, its ad spending hit \$69.6 million. Taking a page from the Lee Iacocca playbook, Winn filmed a series of commercials last June starring himself—at a time when Value America could hardly afford the cost of TV airtime. Winn says the idea to do the spots came from outside public-relations experts.

Other expenditures were even harder to understand. Winn agreed to purchase a 34.4-acre expanse of land for \$5 million where he planned to build a multimillion dollar headquarters. The property was later appraised at less than \$2 million. It cost the company \$400,000 to get out of the contract. Winn disputes that valuation and says the building was needed. After a newly recruited CEO discouraged Winn's purchase of a corporate plane, Winn and co-founder Rex Scatena spent \$650,000 for a down-payment on a Hawker 800 anyway. With board approval, they began expensing their trips to the company and put two pilots on the payroll at a cost of \$250,000 a year. In 1999 alone, the cost of the plane to Value America was \$800,000. Winn now claims the company still owes him and Scatena the \$650,000 down-payment, which he says the board agreed to cover. Scatena could not be reached for comment.

Meanwhile, as investors anted up more cash to keep Value America going, Winn began taking money out. During one investment round, in the summer of 1998, when Microsoft founder Paul Allen put in \$15 million, Winn sold some of his own holdings, pocketing

some \$5.7 million. Allen, who declined comment, knew of the sales at the time. "There were extenuating circumstances," says Savoy, declining to go into further detail.

The splashy expenditures hid some fundamental problems with Winn's business model. In signing up as many vendors as possible, there was little regard to whether their products were suited for sale via the Web. Many manufacturers simply weren't capable of shipping a single box of Tide or a bottle of Advil. They had no experience in dealing directly with consumers. Glenda M. Dorchak, a 24-year veteran of IBM who is now CEO of Value America, says she tried ordering a pair of toothbrushes. It took weeks for the package to arrive, and when it did, it was one toothbrush short. Indeed, Winn's basic premise of eliminating the middleman never happened. Most orders were handled by the ultimate middlemen: old-fashioned distributors.

Still, at the height of the company's success last April, Winn seemed neither humbled nor melancholy. He started voicing political ambitions, even a desire to become President of the U.S. Winn told colleagues he planned to withdraw from the company in order to run for lieutenant governor of Virginia. That, he said, would give him a platform for a Presidential bid in 2008. Winn dismisses those stories and says he had given up his Presidential aspirations "a long time ago." He also began cultivating relationships with politically connected conservatives, including former Education Secretary William S. Bennett, who joined his board last summer, and Reverend Jerry Falwell, who was invited to buy shares in the Value America IPO under the friends-of-the-company provision. While other dot-coms might have a "chief evangelist," Winn had a "chief of staff," Mick Kicklighter, a retired three-star general who traveled everywhere with his boss, taking notes.

WINNERS AND LOSERS. Although Value America is just months from running out of cash, Winn is set for life. He lives just three minutes from the company's Charlottesville headquarters on a 150-acre estate, where he has built a Greek Revival mansion modeled on George Washington's Mount Vernon. Both Winn and Scatena, who served as outside counsel to Winn's earlier bankrupt venture, have been feverishly dumping their stock since being forced out of the company in November. Winn has personally realized cash gains of about \$53.7 million and still has an additional \$15.5 million worth of stock. Winn's backers have not fared so well. Allen has lost roughly \$50 million, according to public filings. The personal and company losses of FedEx founder Smith approach \$8 million.

So where were the directors during this debacle? Many of them were still being recruited in the months following last April's IPO. Savoy and Smith came on soon after the offering, but Schmitt, Roche, and Bennett joined during the summer. When an executive-suite coup erupted in November, they had barely settled into their roles. Directors contacted by Business Week say they acted appropriately and still express confidence in the company. Winn shows little regret about the fate of Value America or of the well-heeled backers who believed in him. He cheerfully meets with a reporter in his "carriage house" to recount his role in this New Economy cautionary tale. Seated in a brown leather club chair before a massive stone fireplace and a crackling early-morning fire, with his yellow lab, Crystal, at his side, he looks the picture of country aristocracy.

Life wasn't always so comfortable. Winn says that in his first year as a manufacturer's rep, in 1978, after graduating from the University of Southern California, he was painfully shy and worked 90-hour weeks to earn just \$12,000 for the year. He had joined his gregarious father in a housewares venture. The younger Winn was raised on the

business, which his father ran from a home office next to the kitchen, in Sierra Madre, Calif. From the age of five, Winn says, he knew he wanted to sell. He proved a quick study. Within a few years, he had bought out his father and was pulling down a six-figure salary. His success brought him a house perched on the edge of the Pacific Ocean, a sailboat, and a big bank account.

It also brought him greater ambition. In 1986, Winn founded Dynasty Classics Corp., a maker of lighting products. Four years later, with annual sales of nearly \$100 million, he brought the company public. Within eight months, however, after revealing a fourth-quarter loss, the stock fell from a high of \$18.50, to under \$4. In October, 1993, Dynasty filed for Chapter 11 bankruptcy. Russell Schreck, a turnaround consultant who became president of Dynasty after the filing, blamed the problems on "a lack of structure and discipline. You had an entrepreneur who grew the company very quickly, but he hit a brick wall. There was a lack of accounting."

UNTRIED PRODUCT. Winn has a different view. He says the company was forced to file for bankruptcy only after Wal-Mart Stores Inc. (WMT) reneged on a deal to help fund the production of \$25 million worth of lamps and other products. Wal-Mart says it doesn't comment on vendor relations. "I was not without blame," recalls Winn, who grows misty-eyed as he tells the story. "I was at the helm of the company and there were any one of a hundred things that I could have done better." Remarkably, though, given Dynasty's fate, Winn feels he was underappreciated. "When things go south, there is an element in society today that is very vile. You get to see the underbelly of people." Winn says he met the payroll out of his own pocket for a time, but never received any thanks.

Over the next couple of years, as interest in the Internet began to heat up, Winn dreamed of the ultimate sales company, one that would advertise, market, and take orders but never handle the merchandise. Eventually, he cranked out a 250-page business plan for Value America, and on July 4, 1996, he and a few friends and partners moved their families to Charlottesville to launch it.

Winn and Scatena anted up about \$150,000 each in the startup and began to furiously hire the talent necessary to make a go of it. A big break occurred in December, 1997, when Winn persuaded the Union Labor Life Insurance Co. in Washington, to invest \$10 million in Value America. Winn quickly paid himself \$150,000 from the proceeds, saying that his initial cash outlay had been a loan. Six months later, an even bigger break occurred. Through the insurer's contacts, Winn gained a meeting with Paul Allen and William Savoy in Seattle and persuaded Allen to put \$15 million into the company, giving Winn's fledgling business a \$300 million valuation—and instant credibility.

The IPO of last April took place well before Value America had begun to prove its mettle. But Winn had tried to take it public even earlier. In September, 1998, only three months after Allen's investment, Winn tried to cash in on the connection with a \$75 million offering. But the IPO market had temporarily dried up. When his bankers told him he'd have to accept a lower price for the stock, Winn cancelled the offering. It was a crushing blow, but Winn says he gained encouragement from Intel Corp. (INTC) founder Andrew S. Grove, whom he had met through a mutual friend. At a dinner shortly after the failure, Winn says that he told Grove of his troubles. "He put his arm around me and said 'I believe in you. You're going to do well, and you're going to live to see far brighter days.'" Grove says he was supportive but doesn't recall the details of the dinner.

Few outside the company knew how badly things were going. Value America was

struggling to meet its growing payroll. It began delaying its payments to manufacturers. "We played vendor bingo," says one former executive. "Whenever they complained, we paid." Dorchak confirms that, strapped for cash, the company was forced to delay payments. Winn and Scatena loaned the company \$550,000 in late September, 1998. Then Winn led what insiders termed a "pass the hat" round that raised \$7 million more. Winn didn't invest more money himself because, he says, SEC rules prevented him from doing so. Winn says that what he did was far more selfless. "We got no stock or anything for our loan," he says. "That was genuine charity there." Both he and Scatena took repayment of their loans before the end of the year.

Despite the scare, Winn and Value America won lots of publicity, partly a payoff from the millions spent on ads in The New York Times and other newspapers. In February, 1999, CEO magazine dubbed him "the prince of e-commerce," just months after his company nearly went belly-up. "Princes rise and fall," says J.P. Donlon, editor in chief. "If this was bullshit, I thought, it was platinum." The buzz attracted more money and big names.

Fred Smith was one. Smith had often expressed skepticism about e-commerce, but he believed that Winn had the ideal business model. "I thought this was one of the best things I've seen," recalls Smith. In January, 1999, Smith committed \$5 million of his own money and \$5 million of FedEx's money to the venture. Allen, meantime, put in \$50 million more.

As the new money and the support of other big backers, like Gary Winnick of Global Crossing Ltd. (GBLX) and financier Sam Belzberg, rolled in, Value America began to operate less like a business and more like a cult. "When you're around him, you get caught in the swirl," says one former manager. "It's like drinking Kool-Aid." Winn would gather his employees and speak for a full hour at a time, promising that everyone standing before him would someday be a millionaire. At one session, recalls employees, he stood on top of railroad ties on a chilly May morning in the parking lot and spoke for an hour about his life and career. "As he talked, the sun rose higher in the sky and the air became warm and comfortable," remembers Tom Matthew, who wrote product descriptions for the company's Web site. "I wondered if Craig had planned it that way."

It was an exciting place to work, even if the hours were horrendous and the inconveniences many. "People were stacked on people," recalled Melissa Monk, vice-president for sales. "It looked like an anthill." Sales soared from \$134,000 in 1997, and to \$42.3 million in 1998. But the losses rose just as fast. After losing \$425,000 in its startup year of 1996, the company lost \$2 million in 1997, \$64.8 million in 1998. Few investors worried about the red ink: Net companies were supposed to lose money to gain scale and clout in a frenzied marketplace.

"A HIGH." Winn decided he needed help in managing the torrid growth. Before going public on Apr. 8 last year, he recruited the head of U.S. Office Products Co., Thomas Morgan, to become chief executive. Morgan, 46, a mild-mannered man, had met Winn on a golf course and was hoping to sell him his line of office products. Instead, Winn persuaded him to leave his job as CEO of a \$4 billion company and take a flyer with a Net startup. Winn remained chairman, but Morgan was supposed to be the professional manager who would run Value America's day-to-day operations.

The IPO was a huge success, creating dozens of paper multimillionaires, including Morgan. "It was phenomenal," he remembers. "It was a high for everyone in the organization." That evening, Winn celebrated by arriving in a limo with his wife, Katherine,

for a celebratory dinner at the local country club.

The celebration proved short-lived. Winn, say insiders, had trouble giving up control to his new CEO. Although Winn denies it, several present and former executives say he frequently undermined Morgan and continued to micromanage nearly everything. "There was never a major decision he was not involved with," says Morgan. "Craig would just do what he wanted to do and informed me after the fact." Winn disputes this, maintaining that he largely focused on developing outside alliances. Winn promised to give more authority to Morgan over the next three months, but the shift never materialized.

Meantime, in its zeal to meet the unrealistic expectations of Wall Street, the company was making ever more desperate and wasteful marketing deals. The company paid Yahoo! Inc. (YHOO) \$4.5 million for a year's worth of Web site ads that several insiders say brought in less than \$100,000 of revenue. The company spent \$1 million for a booth at Comdex, the computer show, hoping to sign up 100,000 potential Value America customers. Instead, the event brought in only 16,000. Winn argues that most of the decisions were made by Morgan and Dorchak, who as president was responsible for marketing and sales. He said he was against another deal to pay \$750,000 to sponsor Dennis Conner's America's Cup yacht. "We kept spending money like it was going out of style," says one former top executive.

Investments in more fundamental areas were more scarce. "The Web site was perpetually slow, outdated, and uncommonly difficult to navigate," recalls ex-employee Matthew. Instead of fixing the problem, Matthew said, the company focused on meeting its financial numbers. "We needed to do X amount of business this quarter and add X number of products to the site so the stock price would stay high and we would all be millionaires. Who cared that the store ran like molasses or that order tracking was virtually unmanageable." Through the end of last year, Value America still got over half its revenues from customers dialing in by phone. Winn maintains that the computer systems worked well and that appropriate investments were made in them. Adds CEO Dorchak: "It's like icing a cake that hasn't been baked. We had someone here who was just icing an unbaked cake."

To drive revenue and keep the stock inflated, the company introduced ValueDollars, which consumers could use for 50% off the cost of purchases. The discounts virtually assured that the company would lose money on every sale it made. By last summer, Value America was handing out 1,000 ValueDollars with the purchase of a \$1,000 color TV. "It was uncontrollable," says Nick Hoffer, senior vice-president for marketing. "It was crazy."

Inside the company, chaos was rampant. Winn, insiders say, ran the place on daily whims. He spent \$1.8 million on a Christmas catalog that didn't get into the mail until late November. "That was one of the projects of the day," says Hoffer. Winn says the delay resulted because the marketing department failed to follow his May directive to work on the catalog, which he says, was largely paid for by the brands. Toward the Christmas holiday season, the company advertised a Sega Genesis game at \$199. At that price, with ValueDollars added, every sale was below cost. Even more troublesome, Value America secured only 1,200 units. Orders the first day reached 1,500 units and eventually topped out at 6,000. To meet demand, the company sent employees to Toys 'R' Us (TOY) and other stores to buy the product off the shelf. "We fulfilled every order, at a huge cost," recalls Dorchak.

SOAP OPERA. Although Winn spoke grandly of his inventoryless model, in the third quarter of 1999 alone Value America recorded an inventory writedown of \$350,000. How was that possible? To secure the supply of some goods, Winn had to agree to purchase such products as Compaq and Toshiba computers that later were sold below cost, resulting in a writedown. Meanwhile, many orders, insiders say, were transmitted to vendors by fax or e-mail, a far cry from the instantaneous computer-to-computer model Value America had promised.

Meanwhile, Morgan was growing ever more frustrated waiting for Winn to resign as promised. Winn still occupied his corner office, triple the size of Morgan's. On Nov. 1, Morgan walked into Winn's office and resigned, but the entrepreneur persuaded him to stay by promising to come up with a plan to leave. Just 10 days later, after a four-hour meeting in which Morgan aired a list of grievances, the founder finally agreed to give up the chairman's job immediately. At least that's how Morgan remembers it. Winn says he only agreed to think about the issues. That Sunday, Nov. 14, Winn asked a colleague at Value America to go to his log cabin on his estate and get a two-page, handwritten document he had drafted. The memo, left on a table in the cabin, stated that Winn was stepping back into the CEO's job.

When Morgan saw the document that night, he was dumbfounded. He confronted Winn the next morning, then contacted a director before taking a holiday to give the board time to act. Finally, Smith, Roche, and other directors began interviewing senior managers in the company. On Nov. 23, the Tuesday before Thanksgiving, the board voted to fire Winn. Schmitt was named chairman, while Dorchak, 45, was named CEO when Morgan quit for good.

Dorchak now finds herself trying to pick up the pieces. The promotions helped to increase revenues last year fourfold, to \$182.6 million. But losses of \$175.5 million nearly equaled its sales and have led to a liquidity crisis. The market capitalization of the company is now less than \$100 million—below its valuation during the first round of venture financing, in 1997. Meanwhile a shareholder lawsuit alleging that the company made misrepresentations to inflate the stock is pending in U.S. District Court. The company says the claims are without merit.

Since taking over in November, Dorchak has restructured to focus on electronics, technology, and home-office supplies and has laid off nearly half of the payroll. But Dorchak has her own critics who point out that the day after announcing the layoffs, she chartered a private plane at a cost to Value America of \$25,000 to spend New Year's in Arizona. She says she did so after working 26 hours straight and missing the last flight out of Charlottesville. Dorchak's hopes for survival hinge on her ability to sell investors a new game plan. She plans to market Value America's technology to other companies eager to sell products over the Net. "The business model the company has today is the model it should have had all along," says director Savoy. "Attempting to deal directly with consumers probably wasn't the smartest idea on their part."

At a time when lots of Net bubbles are bursting, the humbling of Value America is a fitting postscript to an age fast fading. While such failures may be a price the market must pay to break new ground, the lesson here is simpler: In a period of near mania, almost anyone can find buyers for a house of cards if he has a good enough pitch. Sitting in his very sturdy mansion, which he calls Windom Hall, with majestic views of the Blue Ridge Mountains, Winn wants his millions and the last word. "Not only is the company nearly

bankrupt," he says, "it's current management is morally bankrupt. They have chosen to recreate history."



INTERNET: NET LETDOWN: PRIVATE INTERNET COMPANIES FIND THEIR VALUES FALLING

By George Mannes

Senior Writer

5/2/00 6:30 PM ET

SQUAW VALLEY, Calif. – Venture capitalists will tell you that they're not affected by short-term trends, like the recent plunge of newly public Nasdaq stocks. But at Red Herring Venture 2000, a gathering of tech companies looking for venture capital and VCs with money to invest, the effects of Nasdaq plunge on valuations is palpable. These long-haul thinkers are renegotiating – downward – the value of the companies in which they invest. That could indicate that they don't expect the value of comparable public companies to be roaring back anytime soon.

Raising Cain?

Let's start with the experience of one commercial banker at the conference, someone who prefers to remain anonymous. A company that this banker works with has been raising a new round of private capital – one that, at the share-price terms negotiated with new investors, would value the company in the neighborhood of \$50 million. But just last week, after everyone had finalized the "term sheet" – the document, in VC investing, that covers the basics of how much of a company a VC is buying, at what price – the VC came back to the company with an announcement: The company in question was now worth less than half the number that was on the term sheet. Gulp.

This week, it looks as if part of the difference will be split, says the banker, so it looks as if the readjustment may not be as dramatic as it originally looked. But this story doesn't seem to be an isolated event. And the problem isn't that VC funding is drying up. Far from it, in fact. "The money is there ... there's no shortage of that," said the commercial banker.

Better Deals

Andreas Stavropoulos, a director at VC firm Draper Fisher Jurvetson, says his firm has been on both sides of the trend. Some companies in which his firm has already invested "had their term sheets renegotiated on them" by subsequent investors. In other situations in which his firm was about to invest money, the changing market conditions meant Draper Fisher Jurvetson was able to get itself better deals than planned.

Naveen Jain, CEO of InfoSpace (INSP:Nasdaq), says the valuation shift has given his firm negotiating power in potential acquisitions of privately held companies. "It's much easier to do deals now," he says. "Initially, everybody had dreams of being hundred-billion-dollar companies. Those dreams have been shattered." The funny thing is that the many presentations made at the Venture 2000 conference by private companies looking for money hardly ever get specific about the green stuff. (By the way, the description "private

companies looking for money" is beginning to seem redundant.) At most investment conferences run by Wall Street brokerages, the company presentations last about 30 minutes – a ridiculously short time in which to get a picture of what a firm does and how well it does it.

Elevator Shoes

Well, here at Red Herring Venture 2000, the presentations last a maximum of about 15 minutes. Some of them, the so-called elevator speeches, last five minutes. (The "elevator" is a reference to the dictum that an entrepreneur ought to be able to pitch his company to a VC if he's lucky enough to have a few seconds of his time during an elevator ride.) The difference between a half-hour speech to investors and one lasting 15 minutes, it appears, is that for the shorter one, the CEO skips all the slides in his Power Point presentation that have the numbers on them – stuff like how much money the company has made, and how fast it thinks its revenue will grow.

That doesn't mean that these companies can't get your attention. One that managed to cut through the clutter in five minutes was Icebox.com. To demonstrate the company's strategy of using the Internet to change the way TV pilots are made, the firm showed an example of the animated programming on its Web site: a nutty, offensive and gleefully inaccurate episode in the life of Abraham Lincoln called "Hard Drinkin' Lincoln," in which the alcoholic president, working as a hotel clerk, meets up with Mahatma Gandhi. Will Icebox.com be able to get this on TV? Don't know. How will Icebox.com make money? Don't know that, either. But entertaining these questions sure beats thinking about the falling value of Net stocks.



HERB ON THE STREET: THE PLOT THICKENS AT CYBER-CARE

By Herb Greenberg
Senior Columnist
5/8/00 6:30 AM ET

An item here last week raised questions about whether Cyber-Care (CYBR:Nasdaq) had received FDA approval to market its heavily hyped "Internet-based technology system that provides remote monitoring of individuals for health care purposes." That prompted one reader, who goes under the handle Hodgetx, to write: "This is a huge retail stock. My question to you would be what investors do you see yourself serving with this article with accusations of non-FDA compliance? Who pays your salary? Should we call for an ethical review? By the way, did you report all of the facts?"

Let's take them one at a time: Which investors do I see myself serving? Any invested in the stock. Retail investors, who live in the greatest vacuum – especially with a stock like this that thrives off its message boards – need the most information. As for why I would write about FDA compliance, it's a serious issue, especially with a heavily promoted stock like Cyber-Care, where it's often hard to distinguish fact from fiction. Who pays my salary? TheStreet.com (TSCM:Nasdaq). Should you call for an ethical review? Be my guest.

Oh, and did I report all of the facts? Actually, no, which brings us to Cyber-Care, the sequel:

As we mentioned last time, Cyber-Care has issued no fewer than 10 press releases touting the orders of its Electronic Housecall System, which still hasn't received FDA approval, from a number of companies. However, it's one thing to issue a press release touting orders, it's another for those orders to materialize. That's important because it's not clear whether several companies that Cyber-Care has claimed to have deals with have the financial wherewithal to buy the products.

Take Cambridge Medical Centers, which claimed that it was buying \$2 million worth of the units from Cyber-Care, with the possibility of buying another \$5 million or so in the future. Cambridge's president, according to a Cyber-Care press release touting the deal, is Barry Chapnick. He's the same Barry Chapnick who was CEO of the failed Commonwealth Savings & Loan in Florida. Two of his brothers, Jason and David, were sentenced to prison after the Commonwealth fiasco. Barry was sued by the Securities and Exchange Commission. It's unclear how the case was resolved; the SEC declined comment.

Given that backdrop, Martinez (as in Mark, my associate) decided to check on Cambridge with Dun & Bradstreet(DNB:NYSE). The president, according to D&B, is a "Larry Chaplick." Larry Chaplick? Wasn't that supposed to be Barry Chapnick? That's what D&B wanted to know, according to a source there. So D&B, as part of their routine verification process, contacted Barry Chapnick a while back to make sure the name on the D&B report was correct. D&B's records show that "we talked to him," meaning Chapnick, and that he wasn't bothered by Larry instead of Barry and Chaplick instead of Chapnick. (Our D&B source says D&B is now sending the Cambridge Medical file to its "high risk" department for further investigation.)

So, which is it, Barry or Larry? Mark called Cambridge and asked for Larry (per the name on the D&B report). Larry Chaplick, please. "Who?" asked Linda, the receptionist who answered the phone at Cambridge Medical Centers.

"Laaarrrryyyyy Chap-Lick," replied Mark.

"There's no one here by that name."

"Has there ever been a Larry Chaplick?" asked Mark.

"No one ever by that name," said Linda. "You sure?" continued Mark, who tends to be tenacious. "There's never, ever been a Larry Chaplick?"

"No. No Larry. Larry is no one."

Later, Mark called again. He told the receptionist – a different woman this time – that he had been trying to get in touch with Barry for the last week, but that Barry had not returned any of Mark's calls. "She then told me that Barry told her I've been calling for weeks," says Mark. "She said, 'He (Barry/Larry) says you've been calling him for weeks.' I agreed with her, and told her that I don't think Barry wants to talk with me. She agreed, and told me why: 'He likes to escape a lot.' What do you mean by that?!?!? I asked. 'Forget it,' she said."

(Mark was simply trying to ask about a D&B report that said that Cambridge has been behind in its payments to creditors. In some cases, according to the report, Cambridge is 180 days, or six months, behind. There are nine accounts on record with D&B – each of them showing that Cambridge is behind in payments.)

Next is Metropolitan Health Networks (MDPA:OTC BB), which said (according to a Cyber-Care press release) it will buy up to 12,500 Cyber-Care units over the next 36 months. The cost of each unit, the company has said, is around \$5,000, which means Metropolitan Health could be on the hook for at least \$60 million. Why worry? Because in 1998 Metropolitan's auditors raised doubts about its ability to continue as a "going concern;" Metropolitan was delisted from the Nasdaq on May 20, 1999. Then, four weeks ago, Metropolitan filed an 8K with the SEC disclosing that it cannot file its 10-K and 10-Q, citing "insufficient cash flow" as one of the reasons. What's more, according to D&B, Metropolitan is behind on at least four separate lease payments. It's also behind in payments to its largest customers. Our question: If it has insufficient cash flow to file an SEC document and has been behind on payments to its largest customers, what makes Metropolitan Health think it can buy \$60 million of Cyber-Care's product? Metropolitan's CEO Fred Sternberg didn't return Mark's numerous phone calls, despite a receptionist's insistence that he would. Neither did Cyber-Care officials.

And this note: In our first story on Cyber-Care, Cyber-Care's General Counsel Danny Bivins said that the products Metropolitan and other companies had agreed to purchase from Cyber-Care were for a "low-end" product – not, as the press releases suggested, the Internet product that is currently awaiting FDA approval. Unfortunately, Cyber-Care apparently failed to mention the "low-end" part to Metropolitan, which disclosed in a recent SEC filing that it had entered "a strategic alliance" with Cyber-Care for an electronic patient monitoring system that uses Cyber-Care's "patented Internet-based technology." Yep, the same one awaiting FDA approval. (Imagine trying to play "Who's on First" with these guys.)

Herb Greenberg writes daily for TheStreet.com. In keeping with TSC's editorial policy, he doesn't own or short individual stocks, though he owns stock in TheStreet.com. He also doesn't invest in hedge funds or other private investment partnerships. He welcomes your feedback at herb@thestreet.com. Greenberg also writes a monthly column for Fortune. Mark Martinez assisted with the reporting of this column.



MARKET FEATURES: NOT MANY TECH STOCKS GETTING 'BLODGETED' THESE DAYS

From: thestreet.com

By Justin Lahart
Associate Editor
5/8/00 7:06 PM ET

Given the way highflying tech shares have been whacked around lately, it's easy to forget the whopping price targets analysts placed on some stocks just a few months ago.

There was the 1000 target Dresdner Kleinwort Benson put on Commerce One (CMRC:Nasdaq). (That'd be 167 after a series of splits.) There was Sands Brothers' 250 target on Ariba (ARBA:Nasdaq). There was the 300 target that WR Hambrecht slapped on Terayon (TERN:Nasdaq). Traders even coined a term for the practice, joking that a stock had been "Blodgeted," a reference to Henry Blodget, Merrill Lynch's Internet analyst. Blodget made a name for himself in late 1998 when – while still at CIBC Oppenheimer –

he put a 400 price target on Amazon.com (AMZN:Nasdaq). Amazon reached the target just three weeks later – a 96% gain.

From a pure business sense, Blodgeting a stock makes some sense, particularly if you are a young analyst trying to make your way in the world. "You have a very asymmetrical risk/reward profile," says John Manley, equity strategist at Salomon Smith Barney. "No one's going to listen to your first recommendation, so what do you do? You make outrageous predictions." It's a bit like penny-ante poker. The downside is limited because the stakes are so low. So you do some pretty outrageous things you wouldn't do in a real-money game.

Lately, the game has changed and the stakes have been raised. The Nasdaq Composite Index was down 147 on Monday, or 3.9%, at 3669 as several tech bellwethers fell – including Cisco (CSCO:Nasdaq), Qualcomm (QCOM:Nasdaq) and Intel (INTC:Nasdaq). The Nasdaq is down 27.3% off its March high. Even in an up market, though, there is more to setting price targets than just guessing, of course. An analyst isn't going to make a big-impact call on some name that he or she doesn't believe in. It wasn't the 400 price target on Amazon that made Blodget famous; it was calling the price target and calling it right. If Babe Ruth had lined out to the second baseman instead of hitting his "called shot," would anyone have cared?

There is a method to the madness – though arguably the methods used would make Graham and Dodd, those progenitors of fundamental stock analysis, blench. Part of the problem is that the highflying companies themselves do not offer the main bearing that old-school fundamental analysis works with: earnings. Up until fairly recently, fast-growing companies had at least something dangling off their bottom lines. An analyst could look at the price-to-earnings ratio for a company, compare it with the company's rate of growth, and make some sort of judgment.

Lacking the "e" in a P/E ratio makes that hard to do. And it does not help that many of these companies are growing at a phenomenal rate. In a sense, it's like someone handed you a jar with some sugar water in it and a couple of fruit flies buzzing around and asked you to tell him how many flies the jar would have in it in a day, in two days, in three days. Except that nobody's ever seen these kinds of flies before, nobody knows how much sugar there is and nobody knows how big the jar is.

So analysts fiddle around, and try to come up with something that works. The WR Hambrecht analysts who affixed that 300 target – 150, split-adjusted – on Terayon (it's at 61 9/16 now, having risen as high as 142 5/8), for example, took a look at the firm's enterprise value against its revenue expectations for 2000. Then they compared that with other companies in the same space – Terayon is a leading cable-modem supplier, so it belongs with "leading broadband-access technology suppliers and next generation carrier datacom suppliers" (which is something you shouldn't attempt to say three times fast unless you live in Silicon Valley). Terayon's enterprise-value-to-expected-revenue ratio was, and remains, much lower than the group – 12, compared with a mean of 54.

"It's a big discount there," says WR Hambrecht analyst Frank LaPlaca. "The company is growing on a sequential basis the same as the rest of the space. If you look at it that way, there's room for multiple expansion there." WR Hambrecht has done no underwriting for Terayon, though the firm does make a market in the stock. But Rich Bernstein, Merrill Lynch's chief quantitative analyst, argues that the problem with looking at stocks this way is that it ignores whether a whole group is overvalued. He recently compared technology

stocks and nontechnology stocks with similar growth rates.

"That's the way you should be valuing these companies," he says. "Isn't it the growth prospect that you're looking for?" Yet the technology stocks had much higher price-to-earnings multiples than did the nontechs, even though they shared similar growth rates. Technology was, Bernstein figured, just an awfully expensive adjective. An argument against this that is sometimes heard is that Old Economy stocks, even ones with good future growth expectations, simply do not have the same growth prospects as emerging technology companies. Bernstein's problem with this is that it seems dangerous to make such long-term judgments about a company – particularly if it hasn't been around for long.

Faye Landes is a retail analyst, well-known for her independence and revered for a call she made on Nike (NKE:NYSE). But lately, for her former firm, Thomas Weisel Partners, she launched coverage of some e-tailers – most notably eBay (EBAY:Nasdaq). And she'll soon be hanging her shingle at Sanford Bernstein, where she'll probably pick up more. Neither Thomas Weisel nor Sanford Bernstein have had underwriting relationships with Nike or eBay.

She recognizes the kind of growth some of these companies are having. "If Nike came to me," she says, "and said they could increase operating margins by 2000 basis points, I would laugh. But with these 'New Economy' companies, you know they're evolving very fast." But still, Landes has been reluctant to try on newer valuations models. "I'd have to say wearing both hats has led me to be skeptical," she says. "My training as a traditional analyst led me to believe profits would count at some point. A lot of the New Economy, throw-all-care-to-the-winds stuff ... I knew that wasn't going to last forever."



AMERICANS SEE THE NEW ECONOMY ALL AROUND THEM

A poll shows most of them believe there is a New Economy even if they're not part of it

Business Week, May 19, 2000

<http://www.businessweek.com/bwdaily/dnflash/may2000/nf00519b.htm>

By Richard S. Dunham in Washington

Americans are starting to warm to the idea that there really is a New Economy. According to a just-released poll conducted for the centrist Democratic Leadership Council, 57% of Americans say they believe the country has entered a "new kind of economy" that is "significantly different from the industrial economy," while 37% say the economy is basically the same. What's more, most believers think that the economic changes are profound and permanent: 78% say the New Economy is affecting companies in many sectors, while just 19% say the changes are primarily in the high-tech fields.

A plurality of Americans think the brave new world of wireless communications, cross-border commerce, and higher productivity is a good thing. Seventy percent of those polled said the economy is on the right track, with just 23% dissenting. The most optimistic groups were "wired workers," defined by the poll as workers who use computers frequently and work in teams (80%), and Gen Xers, those aged 21-34 (79%).

While the public seems ready to embrace the economic future, most people say they're

still not a part of it. Just 46% said they consider their jobs a part of the New Economy. The demographic group most likely to feel they are stuck in the Old Economy are women. While 52% of male workers consider their jobs to be part of the New Economy, only 40% of female workers felt they had New Economy jobs.

PARTY LINE. The survey, conducted by Democratic pollster Mark Penn, found some partisan differences. While both parties felt that the New Economy would give them a better chance to succeed financially than their parents, Democrats were even more optimistic than Republicans. Overall, 89% of Democrats and 82% of Republicans said they would climb higher up the economic ladder than their parents. But Democrats also wanted to help those left behind: They were more likely than Republicans to say that it's important to protect traditional jobs even if it means slowing down innovation.

When it comes to the role of government, the traditional partisan divisions reemerge: Republicans say government should cut taxes to spur investment, while Democrats favor more spending on science, research, education, and job training. On the digital divide, Republicans are more willing to wait until computer prices fall enough to allow low-income workers to buy their own units. Democrats are more prepared to turn to government for help in wiring schools to the Internet and subsidizing computer purchases by the poor.

The poll of 500 registered voters, conducted on Mar. 27-29, has a margin of error of four percentage points.



MAY 19: LEARN, EVOLVE AND PROSPER

About the biggest dotcom bankruptcy in the UK so far: boo.com

from: tornado.com

E-tail, VCs tell us, is out of fashion. The plight of Europe's high profile, low revenue sportswear retailer boo.com bears stark testimony to this. Late to launch, slow to revenues, the company seems trapped reaching for the mezzanine round with little prospect of success as the big-name backers that launched the company look to cut their losses.

Boo.com's first round of financing is the stuff of legends even in short history of the new economy, but with ambitious expansion that outstripped even optimistic predictions of future revenues it has not taken long to burn.

Boo.com suffered from delays, technical hitches and a website that made broadband access a prerequisite for purchasing sneakers. More conventional problems abounded too. No price transparency here, in an effort to keep manufacturers happy this Internet company wanted to offer goods at local retail prices.

Today some people talking about the value of boo.com are doing precisely that, discussing the value of a scarce - if tainted - three-letter URL. But perhaps the site should be left dormant as a reminder. There are plenty of lessons to be taken from Miss Boo's misadventure in retail. Learn, evolve and prosper.



WHO CARES ABOUT DOT-BOMBS?

Upshot - June 30, 2000

<http://www.upside.com/texis/mvm/story?id=395bbbd50>

by Adam Feuerstein

I'm sick and tired of dotcom layoff stories. Sure, we at UpsideToday are just as guilty as any other media outlet which derives twisted pleasure in recounting the turmoil inside the walls of dotcoms bleeding millions of dollars of red ink every month with no hope of ever turning a profit. We have our Dotcom graveyard, while sites like **Fuckedcompany.com** have turned the death of the dotcom into a spectator sport.

The shakeout occurring in the Net economy these days is newsworthy and important. The problem is a lack of perspective. Should we really be all that concerned when some unknown Net startup lays off 10 people, especially when the company only employs 150? Is it news when some website's VP of marketing is fired making copies of his ass on the office copier or getting drunk and pawing interns at an office party?

Pardon me, but I thought layoffs were news when **General Motors (GM)** shuts down a plant in Flint, Mich., putting 15,000 autoworkers on the street. Or when an entire sector of a state's economy – think the defense and aerospace industry in California – vanishes, practically overnight. By most estimates, there have been just 4,000 to 5,000 pink slips handed to Net economy workers in recent months. That's a pittance, especially with the unemployment rate humming along at historical lows. None of these workers are out of a job for long.

Make money or go home

If these layoffs, and the accompanying rise in dotcom failures, signal anything, it's that the New Economy is finally being held to Old Economy rules. And nothing is more important than rule No. 1: Make money or go home. In that light, the "dot-bomb" hysteria doesn't seem all that unique or interesting. Internet startups are nothing more than small businesses, and a lot of small businesses fail every year.

According to statistics compiled by the U.S. Small Business Administration, more than 524,000 small businesses closed their doors in 1998, the last year for which data was available. That number doesn't include almost 54,000 small businesses that filed for bankruptcy.

The SBA says these companies shut down for a variety of reasons, including financing problems, the loss of major customers, an inability to manage employees, tax troubles and personal problems. Don't these hiccups sound familiar?

Bye, bye New Economy

It's probably time to do away with the whole New Economy tag altogether. The Internet has become an integral part of all businesses, whether they operate exclusively on the Web or in the brick-and-mortar world. Is **Amazon.com (AMZN)** really all that different from **Wal-Mart (WMT)**? Shouldn't both companies be judged using the same metrics? And if so, which stock would you rather own today? And if we're going to hook dotcoms and reel them back into the traditional business fold, we need to do the same for employees. Sites like the aforementioned Fuckedcompany.com have become a haven for disgruntled dotcom workers who feel embittered because their get-rich-quick schemes have gone awry. Sorry, but working for a failing Internet startup doesn't entitle you to an extra piece

of cake at the pity party. Get in line with the millions of other Americans who wake up every morning with dread because their boss is an idiot or their job is mindless, boring and just plain crappy.

Poor Darcy

In one threaded discussion on Fuckedcompany.com's bulletin board, Darcy, a former **Kozmo.com** employee in San Francisco, complains about her \$8-an-hour job pulling videos from a warehouse shelf and packaging them for delivery. She bitches about lazy, inefficient managers and boorish co-workers, many of whom are just waiting to get rich when Kozmo goes public. From her posting, Darcy seems articulate, intelligent, and unfortunately, stuck in a job for which she was vastly overqualified. But her situation is no different from an English Ph.D I know who was forced to work at **Starbucks** (SBUX) because there weren't enough teaching positions. Dotcom employees don't hold a monopoly on career frustration, nor should they consider their job descriptions unique. When you think about it, the warehouse worker at Wal-Mart hauls boxes of merchandise around just like his compatriot at Amazon. It really doesn't matter that one box of books is being sold in a store, while the other is being peddled over the Web. The dotcom *sturm und drang* is sure to continue unabated, but let's at least get a grip. A bunch of failed e-commerce sites doesn't signal the end of the Internet. If anything, the New Economy is just becoming the economy, and that can only be a good thing for everyone.

Adam Feuerstein covers e-commerce for UpsideToday. Reach him at adamf@upside.com.

From: FuckedCompany.com, July 27, 2000

AutoAllies.com ceases operations
According their homepage, AutoAllies.com is no longer.
When: 7/27/2000
Company: AutoAllies.com
Severity: 100 - new hall of fame inductee!
Points: 200

Two CEOs in one year
Ron Matros, president of Burlington-based Open Market Inc., handed in his resignation as his company announced slower-than-expected sales and a \$7.4 million net loss.
When: 7/27/2000
Company: OpenMarket.com
Severity: 30
Points: 130

Reorg and layoffs
Rumor has it that Branders.com just had a zesty layoff session.
When: 7/27/2000
Company: Branders.com
Severity: 35
Points: 135

Lays off bizdev

Rumor has it that iGive.com laid off the entire business development staff after their fucked VC firm, Divine Interventures, declined to submit funds for the second round.

When: 7/27/2000

Company: iGive.com

Severity: 75

Points: 175

Big bunny gives founders and staff the axe

Rumor has it Rouze.com – which was acquired by playboy online in February – recently fired the two founders of the company and have given notice to the remainder of the staff.

When: 7/27/2000

Company: rouze.com

Severity: 99

Points: 199

Feeling fucked

CitySearch.com presented arriving employees with pink slips and severance pay at its New Orleans branch.

When: 7/27/2000

Company: citysearch.com

Severity: 25

Points: 122

RFQ for a failing company

Of the "seasoned group of professionals" listed at on the site, there is only one member left – Charlie.

When: 7/27/2000

Company: TelecomRFQ.com

Severity: 90

Points: 190

Layoffs and no IPO

Rumor has it that Travelstore.com, the UK based not-so-cheap flights company, have just given about 2/3 of their programming staff two weeks notice.

When: 7/27/2000

Company: Travelstore.com

Severity: 80

Points: 180

A bloody pulp

Rumor has it that this content play was grounded before it ever really started, and all but the 3 founders have been let go. The content on the site hasn't changed in weeks.

When: 7/27/2000

Company: pulpfree.com

Severity: 90

Points: 190



HOW THE INTERNET BUBBLE BROKE RECORDS, RULES, BANK ACCOUNTS

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<http://interactive.wsj.com/archive/retrieve.cgi?id=SB963527415634796028.djm>

By Wall Street Journal Reporters Greg Ip, Susan Pulliam, Scott Thurm, and Ruth Simon

"The world has gone mad."

The thought flashed in the mind of Internet analyst Lise Buyer one morning in November 1998, as she and colleagues at Credit Suisse First Boston stared at a stock-quote machine. They were, Ms. Buyer recalls, agog at the trajectory of the initial public offering of theglobe.com, a collection of community Web sites. Theglobe.com had puny revenues and heavy losses. CSFB bankers didn't think the company was ready to go public. Yet theglobe.com's stock, offered at \$9 a share, instantly soared to \$97, briefly giving the company a market value of nearly \$1 billion.

Crazy – but there was a message to the madness. CSFB soon scrapped some of the rules it had used to gauge whether a company was ready for the big time, and took public no-profit Internet plays Audible Inc., Autoweb.com Inc., CareerBuilder Inc. and others arguably just as slight as theglobe.com ever was. Today, Audible trades at 54% below its offering price, Autoweb is down 69% and CareerBuilder is off 86%. Theglobe.com closed Thursday at \$1.8125, or \$3.625 before a split. Theglobe.com declines to comment on its IPO but asserts that the company is "committed to achieving profitability." Its underwriter, Bear Stearns & Co., very much believed in theglobe.com at the time, a spokesman says, noting that it traded above its offering price for months.

The Great Internet Bubble may be starting to fade from many memories, but the fallout blankets the landscape. This craze, after all, ranks among history's biggest bubbles. Investment bankers, venture capitalists, research analysts and investors big and small, through cynicism or suspension of disbelief, financed and took public countless companies that had barely a prayer of prospering. Rarely have so many people willingly put prudence on hold to enter a game most were sure couldn't last. "We all knew we were going to get a big kahuna correction at some point," says Jay Tracey, former manager of the Oppenheimer Enterprise Fund. While the Nasdaq Composite Index has clawed back half of its 37% plunge between March 10 and May 23, Internet stocks as a group, valued at \$1.4 trillion at their March peak, have lost 40% of that – erasing almost as much paper wealth as the 1987 crash. Even former stalwarts like Amazon.com Inc. trade at a third of last winter's highs. Though investors are slowly warming again to Internet IPOs, almost half of existing Internet companies now trade below their IPO price.

The question is: What brought on the mania? Some answers lie in the murky realms of mob psychology, the human capacity for denial, the get-rich-quick mentality – factors in speculative frenzies since the days of the tulip. But to an unusual degree, the Internet bubble was a product of basic avarice and tactics that smacked of the boiler room. From Wall Street pro to fledgling day trader, all joined hands in a giddy game of lowering standards, pushing out IPOs and trumpeting prospects, with little regard for a company's true long-term – that is to say, more than three months' – outlook.

"People were throwing money at businesses that wouldn't pass simple due-diligence screens five years ago," says venture capitalist Jim Breyer of Accel Partners. "People

overlooked almost all business fundamentals and drove valuations into the stratosphere."

Drenched in Warnings

Many investors have made good money, but many got clobbered. And the pros? They made billions, and most of them wound up winners even after the bubble burst. People were certainly warned. Every IPO prospectus was drenched in warnings and risk factors, but most investors breezed past them. When the hype crossed the line into manipulation or other wrongdoing, the Securities and Exchange Commission usually stepped in. But most of the time, regulators could only stand by and warn investors about the risks of playing a completely legal game.

There is no denying the enormous business opportunity or the huge changes represented by the Internet and information technology. Some of the companies that emerged from the Internet upheaval will almost certainly mature into enduring, valuable enterprises, as the rebound in a handful of Internet leaders in recent weeks seems to bear out. Yet with the true potential came some truly cynical actions driven by a willingness to see what the market would bear and the investor buy – i.e., a bubble.

Here's how some of the pivotal players stoked one of the hottest stock-market crazes in history. These have been heady times for investment bankers. Just since theglobe.com's IPO – an event many cite as a line of demarcation between raging bullishness and outright bubble – Goldman Sachs Group Inc., Morgan Stanley Dean Witter & Co. and Credit Suisse Group's Credit Suisse First Boston each pocketed more than \$500 million in IPO or secondary offering underwriting fees, according to Thomson Financial Securities Data. It was the most lucrative hot streak investment bankers have ever seen in a single sector. It wouldn't have happened if bankers hadn't changed their rules. For instance, way back at the beginning of 1999, CSFB had a rule of thumb that a company needed at least \$10 million in revenue in the 12 months before its IPO. (Profits were no longer critical; Netscape Communications and Amazon.com, two early IPO meteors, had proved that.)

Flying over Thailand on his way to meet a client in January 1999, CSFB Internet analyst Bill Burnham piped into a regular Monday morning teleconference during which a spirited debate had emerged over whether the rule should be canned. The bank was losing clients – and fees – to competitors. "Everyone realized the entire market was doing deals like this," Mr. Burnham, now a venture capitalist, recalls. "Companies we had relationships with but didn't have any intention of taking public anytime soon announced, 'Hey, if theglobe.com can go public, we can.' "

No formal decision on relaxing the guideline was taken at the time, but soon CSFB's bankers concluded that if they really liked a company, they could take it public with \$10 million in annualized revenues – in other words, just \$2.5 million in the previous quarter, regardless of revenue in earlier periods. "It was emblematic to me of the competitive devaluation of underwriting standards that went on and reached a crescendo in the first quarter of this year," Mr. Burnham says.

One company that wouldn't have fit CSFB's old standard was CareerBuilder, an online recruitment firm. Before CareerBuilder's IPO in May 1999, its prior 12 months' revenue was just \$8.8 million. But revenue in its last quarter was \$2.8 million, or \$11.2 million annualized. After CSFB took CareerBuilder public at \$13, it traded as high as \$20 but has since fallen to \$4.0625. Bill Brady, CSFB's head of global corporate finance for

technology, says CareerBuilder remains a great company that is meeting expectations. He says he doesn't regret any of the deals CSFB has done in the past 18 months. Some, like Commerce One Inc., didn't fit the old standard either, but were successes. Still, he acknowledges that he thought that the prices many stocks hit after their IPOs were irrational, even as CSFB brought similar companies to market.

Other investment banks were priming the IPO machine, of course. Alan Naumann, chief executive of Calico Commerce Inc., says that for nine months before the business-to-business e-commerce software company went public last October, he had 15 different investment banks courting him with regular phone calls.

"The pitch to Calico was, 'Other companies are going public with smaller revenues and fewer customers – we think you're ready. You've got \$2 million in sales, go for it,' " he recalls. Calico held off and eventually picked Goldman Sachs as its lead underwriter. It went public at \$14, shot above \$62 on the first day, but have since slid back to \$17.375 a share.

Mike Yiu, a software developer in Los Angeles, paid an average of about \$58 a share for 1,100 shares of Calico between late October and early January. Mr. Yiu sold about 900 of his shares in April at about \$19 a share and the remaining 200 last month at about \$16 a share, for a total loss of more than \$43,000. The timing of Calico's IPO was "perfect," Mr. Yiu observes. But "we got burned." The stock price notwithstanding, Mr. Naumann says Calico's business remains on track. Its revenue grew 66% to \$35.6 million in the fiscal year ended March 31 – but its loss widened by 82%, to \$27.8 million.

Goldman's Brad Koenig, head of the firm's technology investment banking, says Goldman had good reason to believe early-stage companies could be winners. He points to the debate preceding an early Internet IPO in April 1996. "There were a certain number of people who were highly skeptical of this company named Yahoo! with its yellow-and-purple logos," he says. Even with the recent 51% decline in its price from early January, Yahoo! Inc. is up more than 100-fold since its IPO.

The risks Goldman took on Yahoo went from being the exception to the norm. In 1997, of the 24 domestic companies Goldman took public for which data are available, a third were losing money at the time. Of the 18 it took public this year through mid-April, 80% lose money. A Goldman spokeswoman says this trend reflects the growing number of IPOs of Internet companies, which typically are unprofitable.

Some were companies that its arch-competitor, Morgan Stanley Dean Witter Inc., had decided were too speculative to underwrite. Mary Meeker, Morgan's star Internet analyst, says the firm passed on taking the TheStreet.com Inc., the Internet financial-news site, public because it wasn't ready. (An official at TheStreet.com says Goldman was its first choice.) After Goldman took it public in May 1999 at \$19 a share, TheStreet.com shot above \$70 on its first day, but has since slumped to \$6.

Goldman officials deny that their standards slipped, and contend that the firm also passed on deals that rivals chose to underwrite. Mr. Koenig adds that the criticism of underwriters is off-target. If an Internet start-up with losses exceeding revenue "goes public and goes to a \$22 billion valuation, whose fault is that? It's a tough philosophical argument. ... Is it an underwriter's responsibility to determine whether the market is overvalued or undervalued? Investment bankers wouldn't be making a good living if that was required."

The bankers got help in feeding the furnace from a new breed of mostly young securities analysts who presented themselves as pathfinders in the uncharted terrain of the Internet. The best-known is Henry Blodget, famous for forecasting in December 1998 that Amazon.com would hit \$400 a share. At the time, Amazon.com was trading at \$240; within four weeks it blew past \$400 on its way to a high of more than \$600. Mr. Blodget was celebrated as a seer and left his job at CIBC Oppenheimer for Merrill Lynch & Co. Amazon.com? It closed at a split-adjusted \$35 Thursday, equivalent to \$210 at the time of Mr. Blodget's big call.

Mr. Blodget, 34, has regularly predicted that 75% or more of Internet companies will fail, and he stands by his general belief that Amazon.com and many of his other picks will be winners over the long haul. Mr. Blodget adds, "If AOL, Yahoo, Amazon, eBay, a few others we recommend as core holdings, go down 70% and stay there for four years, I will have been wrong. No argument. But a 50% pullback is still in the line of how this industry performs."

Still, to critics, Mr. Blodget epitomizes the change in the analyst's role during the overheated market in tech stocks: more cheerleader than detached observer. And the buzz – and career opportunities – that Mr. Blodget did draw may have encouraged other analysts to make similarly adventurous forecasts, the critics add.

Despite Mr. Blodget's 75% caveat, his recommendations on individual stocks, like those of many Internet analysts, got more bullish even as they led the Nasdaq Composite Index to ever-more-dizzying heights. Today, he rates 12 of the 27 stocks that he follows as "buy" (the rest are "accumulate"), compared with just one buy rating for the 10 stocks he followed a year ago, says Bob Kim, a former Merrill Lynch supervisory analyst whose Web site, Restex.com, monitors Merrill technology research. Consider Pets.com Inc., which Merrill took public at \$11 in February. It slid to \$6.125 in a month, when Mr. Blodget initiated coverage with a prediction that it would soar to \$16 a share, or 160%, in 12 to 18 months. A major justification: Despite the pet-supply seller's continuing losses, he noted that it was trading at five times this year's estimated revenue, a discount to Amazon.com at eight times revenue. Since Mr. Blodget's prediction, Pets.com has been a dog, falling 70% to \$1.8125.

"Out of one side of his mouth, the message of caution," says Mr. Kim, "the other side, buy the leaders." He describes the Blodget message as: "The risk isn't losing 100% of your investment now, it's giving up 10-times gains in the future." But, says Mr. Kim, "it seems that so far, little of that has panned out except for the downside part." As lucrative as the bubble has been for investment bankers and analysts, their profits pale compared with the money venture capitalists and other early-stage investors have made. The journey of eToys Inc. shows why.

The online retailer went public on May 20, 1999, at \$20 a share, and soared to \$76.5625 on its first day of trading. On Oct. 11, it closed at a high of \$84.25 – and has since plunged 93%, closing Thursday at \$5.625 a share.

A disaster for eToys' early-stage investors such as idealab, an Internet incubator that invests in and nurtures start-ups? Not exactly. Idealab paid just half a cent a share – a total of \$100,000 – for its eToys stake in June 1997. In late 1999, idealab sold more than 3.8 million shares at prices between \$47.50 and \$69.58, for a profit of \$193 million. It still holds a further 14.5 million shares, so idealab has seen its paper profits

dwindle. But even idealab's remaining stake in eToys is still worth roughly 1,000 times what idealab paid for it, while anyone who bought at the IPO price is down 72%. (Idealab, which itself is trying to go public, declined to comment, citing its quiet period.)

And plenty of investors fared worse than that. On Dec. 2, Daniel Sperling, a 35-year-old technology consultant in the Detroit area, bought 200 shares of eToys at \$70. "Our goal was to ride the tidal wave of Christmas shopping and get out," Mr. Sperling says. But in early December, it became clear that big Internet sales weren't materializing, and eToys skidded. Mr. Sperling bought more: A hundred shares at \$58.50 on Dec. 6. A hundred more at \$47.50 on Dec. 14. A hundred more at about \$20 in January. Today, his \$26,600 investment in eToys is worth \$2,800, a paper loss of \$23,800.

Some venture capitalists' profits were truly astounding. Benchmark Capital's \$5 million early stage investment in eBay Inc. grew to \$4.2 billion by the time Benchmark distributed the shares to its investors late last year and early this year. If Benchmark's partners kept a typical 25% to 30% of the firm's investment profits, five of its partners would have split more than \$1 billion when cashing in eBay stock.

Venture capitalists say they deserve big rewards because they take big risks. Many investments go bust. During the early stages of the Internet frenzy, however, it appeared that venture capitalists couldn't lose. They threw more money in earlier stages at start-ups than ever before. Often, they pushed the companies to go public as quickly as possible, to cash in on their investments faster than ever. Even some who benefited from the feeding frenzy agree. "You could invest in a company, take it public and cash out before you proved your business model," says Michael Barach, a former venture capitalist who is now chief executive of Mothenature.com, an online health-products seller. Mothenature.com received its first venture-capital investment in June 1998 and went public last December.

The Internet craze set off an "Oklahoma land rush," says Roger McNamee, general partner at Integral Capital Partners in Menlo Park, Calif., which manages both private and public investments. "In a land rush, you suspend rules because your perception is that time is of the essence." All told, venture capital invested in start-ups jumped to \$36.5 billion last year from \$14.3 billion in 1998, according to San Francisco market researcher VentureOne Corp. The number of deals increased to 2,969 from 1,972. Mr. Barach of Mothenature.com attests to the craziness. Two investors gave him \$10 million apiece after hearing him give a speech at an investment conference. Investment bankers told him they could take his company public when it reached \$750,000 a month – an annualized \$9 million – in revenue, and they did. "No one ever mentioned or talked about how much money we'd lose in 2000 to get to that revenue," he says. The company, which Bear Stearns took public, reported a loss of \$59 million last year on sales of \$5.8 million. Its stock trades at 81.25 cents, down 94% from its IPO price of \$13.

IPOs can't soar without big buyers – and mutual funds are among the biggest. As tech stocks roared, mutual-fund managers faced powerful incentives to ride the rocket, trying to boost their funds' returns – which can mean higher compensation for fund managers. Their voracious appetite for tech shares expanded the bubble. Between Nov. 1, 1998, and last March 31, investors poured almost \$72.5 billion into technology and small-cap-growth mutual funds, according to Financial Research Corp., a Boston-based financial consulting firm. It says that about \$11.4 billion of that total flowed into funds specializing narrowly in the Internet. Six of the 14 Internet-only mutual funds tracked by Lipper Inc. had gains of 100% or more last year.

Sometimes the tactics driving the action in mutual funds have raised questions. When business-to-business Internet player Ariba Inc. went public at \$23 (pre-split) share last June, it shot to a first-day high of more than \$90, thanks to people like Gary Tanaka, a founding partner of Amerindo, a growth-oriented mutual-fund group. On most IPOs, Mr. Tanaka would get 50,000 to 70,000 shares. On Ariba, he got 100,000, in part because he informed underwriter Morgan Stanley that he would buy an additional 100,000 in the after-market once the company went public. His agreement to buy shares in the after-market "probably helped boost us to the top bracket for allocations," he says. Internet IPO allocations helped juice returns of Amerindo funds; its Technology Fund, for instance, posted a 249% gain in 1999. After-market orders also contributed to a big first-day run-up in the stock price – more than ever the mark of a successful IPO.

Some market experts say agreements to buy stock – and thus support the price-in the after-market raise regulatory questions depending on how explicit the arrangement is. Mr. Tanaka says he believes his arrangements are both appropriate and a natural result of his firm's role as "long term investors. If we are buying one million shares, we feel we should get a better allocation." Mark Hantho, managing director of equity capital markets at Morgan Stanley, says the firm doesn't use after-market bids to allocate IPOs, although "it's common to hear feedback as to how investors value the company, ... and we listen carefully to that."

Funds' appetite for IPOs also supercharged the market in another way. "On a hot deal, everyone would put in for 10% and the bankers could tell how hot a deal was by the number of guys who were circling 10% on the deal," Mr. Tanaka says. None of the institutions really expected to receive a full 10% allocation of a red-hot IPO, many of which involved only 10 million or so shares. But the idea was to get a bigger piece of the pie.

The overstated "order book" from institutions, as it is called, was then sent to research firms that rate IPOs based on their interest from institutions. "Sure, that artificially inflates demand. But that's how you rate a deal," says Vinnie Slaven, with Cantor Fitzgerald, whose job it is to rate IPOs based on investor demand. So the process itself helped to create an aura surrounding certain deals of vast enthusiasm among other institutions. This in turn helped to whet the public's appetite for shares of hot IPOs, often leading individuals to buy shares during an IPO's giant first-day run-up.

To catch the Web wave – and keep up with peers' performance – many fund managers loaded up on Internet stocks even though many in their hearts believed the shares to be overvalued. Twice last year, Mr. Tracey, until recently manager of Oppenheimer Enterprise Fund, thought a mammoth correction was coming and sold many Internet stocks. Both times he was wrong. So, after the second time, he jumped at the chance a few weeks later to buy into the IPO of an online industrial auctioneer called FreeMarkets Inc. It was valued at \$1.8 billion based on its IPO price, despite 12-month sales of just \$16 million and steep losses. But Mr. Tracey figured that similar companies were trading at far richer levels, and as to whether those valuations were ridiculous: "I said, 'I'm going to suspend judgment for the moment.' "

That proved profitable for Mr. Tracey, who watched FreeMarkets rocket from its IPO price of \$48 in December to \$280 the first day of trading. He held on as it roared to \$370 in January, then dumped it in February at \$215. It now trades at \$55.0625 a share. This strategy helped Mr. Tracey's fund post a 105.8% return in 1999, though it's down 4.1% so far this year. Mr. Tracey recently moved to Denver fund manager Berger LLC to become chief investment officer.

The tech bubble had one thing no past manias had: the push from online brokers, who made speculating on stocks easier than ever and advertised heavily to encourage people to chase riches. In September 1998, employees at online broker E*Trade Group Inc. hit TV viewers with a barrage of commercials in an effort to add one million customer accounts to its total of 500,000 in the coming year. Some ads suggested that trading stocks over E*Trade was a better route to wealth than waiting to win the lottery, others that it was better than waiting for a rich relative to die. All promised a fast, cheap, powerful way to play the stock market.

As new accounts poured in, E*Trade kept upping its ad spending, says Michael Sievert, chief marketing officer. E*Trade spent \$321 million on marketing in the fiscal year ended last Sept. 30, and surpassed its goal, with 1.6 million accounts – but with a loss of \$54.7 million. It has already spent an additional \$307 million on marketing in the six months through March 31, helping to boost the number of accounts to 2.6 million.

The astonishing growth made online brokers a powerful force in the market, as their customers drove the stocks of newly public and established companies to unprecedented levels. By some estimates, individual investors – most of them trading online – accounted at the peak for 65% of the volume on Nasdaq.

E*Trade's Mr. Sievert says the firm's ads tell investors they won't get rich quick, and that they should take charge of their finances. He notes one of E*Trade's commercials warned against getting carried away with a profit that could quickly disappear. But critics say the Internet brokers did indeed encourage many unsophisticated investors to trade aggressively in the belief they could get wealthy and failed to adequately disclose the risk. "The marketing campaigns by these Internet brokers encouraged novice investors, who had no business trading securities, to short-term trade stocks, and they in many instances ended up losing a major portion of their net worth," charges Douglas Schulz, a Westcliffe, Colo., securities-fraud expert who advises investors with complaints against their brokers.

Jay Kiessling, a physician living near Mobile, Ala., had been trading through E*Trade for about 16 months when he heard about theglobe.com. "I wasn't quite sure if it was a good stock for the long run, but I was almost sure it would have a terrific first day," he says. He put in an order for 5,000 shares, expecting to get the stock at the IPO price of \$9 a share. But because the stock rocketed at the opening, he ended up paying between \$84 to \$88 (\$42-\$44 split-adjusted), more than \$420,000 in total. He finally dumped most of the stock a few days later at \$42 a share, and had to liquidate about two-thirds of his retirement investments to cover the loss.

Dr. Kiessling and his wife filed an arbitration claim against E*Trade, saying it allowed them to "buy an unsuitably over-concentrated position," according to his attorney, James Eccleston, and that E*Trade should have alerted customers that the stock would open up so much higher. In a statement of answer filed last year with the National Association of Securities Dealers, E*Trade said that the Kiesslings "could and should have minimized their risk" by immediately selling the shares and that the couple is responsible for the loss. The case is pending.

Mr. Kiessling hasn't made a single investment since theglobe.com. But though such stories are commonplace, it's hard to say whether the bubble mentality is dead. Just Thursday, two new technology companies went public. Neither is a pure Internet play and one actually is making money. Still, the prices of both more than doubled.