The Solari Report

August 10, 2017

Strong Towns with Chuck Marohn

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C. Austin Fitts: Ladies and gentlemen, welcome to The Solari Report. We have a new guest today, Chuck Marohn, who is a civil engineer from Minnesota. He is the founder and leader of Strong Towns, a not-for-profit based in Minnesota. I'm a member, our editor of *Top Picks* is a member, and we are regularly on the Strong Towns website. We are very interested in what they are doing, and we recommend it to you.

I wanted to get Chuck on because I think there is something very exciting here, and for many of you, it may be appealing .

Chuck, welcome to The Solari Report.

Chuck Marohn: Thanks so much for having me and I'm happy to be here. Thank you for being members because that means a great deal.

C. Austin Fitts: Your membership is growing, and I expect it's going to grow much more.

So tell us how you started Strong Towns. Give us the history, and explain in more detail what you're doing now.

Chuck Marohn: It was an accident in the sense that I never set out to do this. If you would have told me a decade ago, "You are going to be running a national nonprofit building a movement of change around the country," I would have said, "That's crazy."

I worked as a civil engineer for many years, and I returned to graduate school and received a planning degree. In the course of doing that, I wound up starting my own planning company. I worked for cities throughout Minnesota. We had 13 staff and five offices and were doing all types of work.

I was somewhat on the front edge of the whole growth thing that we had happening in the early 2000's – the housing bubble and all of that. I was involved in essentially building and producing that.

In the middle of that vortex, it all seemed rather crazy but, as with many people running a business, business was good. Your incentives to question things when business is good are quite less than when business goes bad. So I would talk about this topic with cities and say, "I don't think that this is going to work," but I didn't actually have it figured out and I didn't spend a great deal of time on it.

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Then everything went horribly wrong. Between 2006 and 2008, before it really affected the broader economy, it affected us. I wound up laying off almost all of my staff and closing almost all of the offices. I had enormous business debt and it was a nightmare. Amid all this, our advice was getting rejected. I was telling cities, "This is a disaster. Your budget is going to implode," and no one would listen to me.

At the depths of all of this, right after the 2008 elections, I started writing a blog. It was cheaper than therapy. I was only trying to sort out my thoughts and make sense of the world around me and actually reached out to a broader group of people and say, "Are you seeing these same things, or am I crazy? Because maybe I'm crazy."

Everything mushroomed from there. We received many readers. My information was passed around to a great extent. I had two friends who were helping me with it, and they encouraged me to start a nonprofit. We did that and acquired a 501c3. I had a foundation contact me and actually say, "We want to give you money to get this started."

They gave me three years of start-up money, and I have not looked back since.

C. Austin Fitts: That is wonderful.

Chuck Marohn: It's rather crazy. I met with the Brandon Foundation in Grand Rapids, Minnesota. I told them what I was doing, and they said, "We want you to share this message with everybody you can."

They gave me three years of start-up money, and I've been doing that fulltime since 2011. I've been trying to share this message with as many people as possible.

This year on our site, we will reach over 1 million people. In the last twelve months we've had 2.5 million page views on our site. Those are insane numbers compared to where we were even two years ago.

I will speak to over 10,000 people in over 55 events around the country. Our membership is growing and our movement is growing, and the number of people talking about how we build cities to be financially strong and resilient is growing. It's a very important message, and once you hear it, you can't unhear it and that's the most powerful part of it.

C. Austin Fitts: Let me read your mission statement:

> The mission of Strong Towns is to support a model of development that allows America's cities, towns, and neighborhoods to become financially strong and resilient.

There is a comment below that:

> For the United States to be a prosperous country, it must have strong cities, towns and neighborhoods. Enduring prosperity for our communities cannot be artificially created from the outside but must be built from within, incrementally over time.

You have two concepts that I wanted you to explain a bit before we leave the history. One is the community investment predicament – that's what I will call it- and the other is the Ponzi growth scheme.

One of the most instructive stories you related in one of your videos was the story of helping one of your clients apply for a grant and realizing it was only going to make the matters worse.

Chuck Marohn: It did; we made a problem more unsatisfactory, and everybody got paid doing it.

This was during my engineering days, and I won't say that this is what prompted me to leave the engineering profession and go to graduate school, but it certainly was one of the indicators that this wasn't working properly.

I was working for a small town, and they had a leaky sewer pipe. The leaky sewer pipe was under a highway, and it was going to cost $300,000 to fix it. I figured this out, and actually felt very proud of myself because I had spent a number of late nights until one or two in the morning pulling manhole covers and taking measurements and calculating. I got the problem narrowed down to a block of pipe. If we could only fix this, we could solve this major problem that we had with the sewage treatment ponds about to overflow and run sewage into a river. It was a disaster.

So I went to the council and said, "For $300,000 we can fix this now. Let's do it."

They said, "That's great, Chuck, but our entire budget is around $100,000. We spent our last amount of savings paying you to do this study, and don't have any money."

So I was aware of these grant programs. The company that I worked for was very successful at getting grants. I returned to the office and talked to the more senior engineers, and they set me up. I went to all the grant agencies, and time and time again I was told, "Chuck, this feels like a maintenance project, you have a leaky pipe and you're only fixing it. This is maintenance, maintenance is a local responsibility, and we don't fund maintenance."

I'm a smart person and could read the tea leaves and saw what was happening. I returned and worked with the city to make it more than a maintenance project. We identified some of the poorer parts of the community that wasn't served by the sewer system. We planned two miles of extension to hook them up and doubled the size of their treatment facility. We put in a number of large pumps. And, oh, by the way, we happened to fix that leaky pipe while we were there.

Now it became a $2.6 million project. I returned to the grant agencies, and suddenly we met every checkbox: We had low-income people, we had a pending environmental catastrophe, we were creating good jobs, and we had potential for growth. We met every criterion, and we received enormous amounts of grants. The city only had to spend $130,000, and it was financed for them through the USDA over 40 years at submarket interest rates.

We met every criterion, and we received enormous amounts of grants. The city only had to spend $130,000, and it was financed for them through the USDA over 40 years at submarket interest rates.

It culminated in the city spending far less money than if they had fixed it themselves. So understand what we did: We took a city that didn't have the money to fix 300 feet of leaky pipe. The solution to that was to give them two more miles of pipe, which bought them some time, but it ensures that someday that city will fail.

I saw, not only our company, but also everybody in every city was doing this throughout the country everywhere I looked. This is how we solved the problems because these were the only financial tools that we had.

C. Austin Fitts: I love it! In one of your speeches you talked about how Spain lost its competitive edge as an empire because they put the capital in Madrid. If you look at the cost of transporting goods to Madrid, it essentially drains the empire.

What you were talking about – in my words – is: Did the transportation infrastructure have a positive or negative return on investment? What you said was that the empire subsidized a negative return on investment transportation infrastructure for decades, and it placed the empire down the ladder.

Chuck Marohn: It had met a political objective. The thing that was astounding about that story was that you had a country that was surrounded by an ocean, and they had become wealthy because they were seafaring. They travelled around the globe and brought back all this gold, and that was how they built their wealth.

They way that they chose to spend their wealth when they merged as one country – one empire in a sense – was, they couldn't figure where to put the capital, so they compromised and placed it in the middle of the country.

Once they made that decision, essentially invested it in the capital, and couldn't back down from it and couldn't change. Even though the transportation system was bankrupted, there were so many vested interests in keeping that balance of power where it was that they couldn't change.

I think it has many parallels with where we are now because we've set up this system that is clearly bankrupting our cities, our neighborhoods, our towns, and by extension, our families and businesses, and yet it's so hard to change. It is so hard to make it work differently.

C. Austin Fitts: I think before it can change, people have to realize that there needs to be a change; change is essential.

It's as though you need to see a picture of the future if you don't change. First, it's a picture of what is possible if you do change.

In one of your videos you're talking about how there is never enough money. If you have a system where you have a negative return on investment to taxpayers' investments, of course, there is never enough money because the entire thing is draining everybody. But if you turn it to a positive, there is plenty of money.

This is not an issue of, "Do we have enough money or not?" It's a much deeper, more serious political issue, and I think that, now with what is happening at the state and local level in terms of finances, it is one that is going to come to a head. This is why I think Strong Towns offers a way of breaking it down and unpacking the predicament into something that someone can do or deal with in their neighborhood or town.

Let me ask you a little about your membership. How many of your memberships are people on the planning commission dealing with these kinds of issues?

Chuck Marohn: I used to think that those were reading our information. When I was writing, I was envisioning – and I think that we all do this – people like myself were reading this. So I was thinking our membership would be people who were involved in local government, who were possibly professionals. We call them APEs – architects, planners, and engineers. I had assumed that many them were those types of people.

We had our first national gathering when we brought people who were interested in Strong Towns together, and about 100 people showed up in Minneapolis to talk about this movement and what we were doing and what we could do differently. That blew my mind. Since then, we've confirmed this in a number of different ways, but at that gathering we found that our audience is about 10% of those people and about 90% 'other' – unprofessionals, people who are not in a routine day-to-day job dealing with these issues, but they love their cities, they love their places, and they are frustrated by the current system, and they want to see things change.

For a large part, when you become a member, people migrate from being members of our audience to members of our movement, and they pay a little money to do that. What they're really doing is expressing their commitment to wanting things to change. We see them doing amazing things –working in their cities doing little pop-up projects and trying little things.

Some of them do run for council, and some of them do serve on planning commissions, but many of them spend their energies trying to make their block and their neighborhood better.

As someone who did not start from that place- when I think of activism- if you had asked me 20 years ago what an activist was, I would have said, "Someone who is very annoying and shows up at the meetings where I'm trying to make a presentation, and get in my face."

I did not come to this to be an activist, but I have learned so much from people and I am so inspired by them because our members are doing fantastic world-changing types of things. I love the opportunity to highlight the things that they do and it's mind-blowing.

C. Austin Fitts: If they had the access to the types of resources you are providing at Strong Towns, then when they show up at the planning commission they can be much more effective for everybody.

Chuck Marohn: I get up every morning, and that is the validation for my entire existence. I think of a time when I was banging my head against the wall, trying to explain things to city council members and getting laughed out of the room, and sometimes fired. "We don't want to hear this stuff from you. Go away."

To their credit, maybe I wasn't explaining it as well as we do today. Maybe I didn't understand it as well as I do today. If I can put things together that help the version of me make this case in a better way and to explain it to people and to talk about it, I have given them a tool that isn't there now. The act of doing that has brought about so much change and good that I'm astounded. I never thought it could be that powerful.

C. Austin Fitts: Let me bring up a couple of specifics of some of the materials you've provided that I think are unbelievably powerful. You wrote a long article on how the infrastructure of Lafayette, Louisiana – in my words – has a negative return on investment. There was a really serious built-in economic problem with how they had organized their infrastructure. Maybe you could tell us a little about that article.

Chuck Marohn: I was invited, along with a good friend of mine, Joe Micicozzi, to go to Lafayette and work with them to answer this question about why they didn't have any money.

Like most cities, they were getting pressured to build a number of things, yet they had this very large backlog of maintenance. I give the politicians there a great deal of credit; they pushed back on the chamber, they pushed back on the big businesses, and all of the people who wanted new highways and new roads built.

They said, "Look, how can we do this? We don't have the money to fix what we have. This is irresponsible."

They asked us to come and explain this. We did an extensive study. We looked into the finances of the city – what it cost to run this place, and how much money they are getting from all the different sources that they had, from utility fees and taxes and everything. Where is the money coming from, and where is it being spent?

When you say that they have a negative return on investment, that is actually being generous. They are a financial nightmare. They have double the amount of public investment in the ground – sewer, water, storm sewer, roads, sidewalk, curb, drainage system. They have $2 of public investment for every $1 of private investment. There is no way that small amount of private investment can support that much public obligation.

When we ran the numbers, the typical house in Lafayette pays $1,500 a year in taxes to the city. In order for them to meet every promise they've made only for infrastructure – and this doesn't cover pensions and all these other things we hear about – the typical family would have to increase from $1,500 a year to $9,200. One dollar of every five dollars that family makes would need to go to the city to maintain roads and streets and pipes. That will never happen!

You see a place like Detroit, and can see a city that we all have an explanation for. I travel around the country, and when I ask people to explain Detroit, if you're in a place with people on the right of the political spectrum, they will explain it one way. If they are on the left side of the political spectrum, they will explain it another way. Everybody has a comforting narrative to explain Detroit, and it always concludes with, "We are not Detroit."

I examine Detroit, and I see a place that got started with this approach 20 years ahead of everybody else. They were the first city to run the highway system through the middle of town; the first city to rip down buildings for parking lots; the first city to expand outward, annexing property and running pipe and new roads and building frontage roads and strip malls. They were the first ones to do this.

After World War II, we all copied them. Detroit is 20 years ahead of everybody else. When we study Lafayette, there is no way that they are going to fix all of this. So at some point in the near future, Lafayette and cities around the country are going to deal with the fact that the way that we build is – as you said – a negative return on investment.

We often say that it is financially not productive. It doesn't generate enough wealth to actually take care of everything. When you do that, pouring more money on it and saying, "We don't have enough money to maintain our roads. Let's go to the state and get more money. Let's go to the bond market and borrow more money."

C. Austin Fitts: It makes it worse.

Chuck Marohn: It makes it exponentially worse. We actually have to change the approach. Then, yes, it is going to take more money. The transition is going to take some money, but we can't continue to keep doing what we're doing; it's bankrupting us.

C. Austin Fitts: In the 1990's, I spent a great deal of time building software tools that would allow you to look at government investment by place. We were loading in all the Federal databases, but then we wanted to add state and local. It was called Community Wizard.

Part of it was mapping the negative returns – what they looked like and why they were happening and how you would convert them to positive return on investment.

Of course, we walked right into the political buzz saw. I'm going to tell you a story to give you an example. One thing that we discovered was that in most areas, particularly urban areas, you would find the Department of Housing and Urban Development building new public housing for costs, at that time, of $250,000 per unit when $50,000 would actually buy out the foreclosed single family properties. Literally, for $50,000 you could buy and rehab a single-family property in the same four to ten block area.

With the mapping that we were doing, and this was during the Clinton Administration, I brought this to the assistant of the person running the Public Housing and Structure program. I said, "Look, in New Orleans and Chicago and all these places, you could get five homes for the price of one."

She turned bright red and said, "But how would we generate fees for our friends?"

There are many neighborhoods where the thing that would most grow economic development is intellectual capital, but they are building another museum because the real estate is what generates fees. If you examine most of the infrastructure that you've been dealing with or what happened in Lafayette, you have this problem of fees for your friends – not only on the real estate and the construction, but also on the bond deals. So you have a political engine.

My attitude is, "No, we don't need to keep paying money into a system that just stole $48 trillion or whatever."

Of course, if you scrutinize all the capital campaign contributions, it's generated from fees for our friends, but there is no proper planning process and disclosure around return on investment to the taxpayers. I think that the patterns of fees for our friends have gone far beyond what even the politicians doing it thinks, makes any sense. This is why the politicians who you were referring to who brought you in, are very courageous to do this.

This machine is about to hit a wall across the country. The question is: How do we convert it? How do we change?

Chuck Marohn: I think that is a powerful story you shared. I analyze it, and there is this narrative that we have in this country today. It actually is about the role of government and I feel it's the wrong narrative.

We could clearly see that people who are cynical of government have every reason to be. The story that you shared, I have seen in places myself, and I've seen where HUD is coming in and building things that don't fit in with the neighborhood across the street from homes in foreclosure or homes that are abandoned. What is happening?

When I did the little project where we obtained the grants, I got a bonus from my firm. My firm made a great deal of money. They started calling me the rainmaker. The people who wrote the bonding, also received money. The person who wrote the grant received money. Everybody in the system got paid. Who took it in the end? Who came out on the back end? This poor city full of poor people living on the margin, barely able to maintain what they have, are the ones who pay for it. They pay for it not in cash. They are going broke; we gave them something that they can't afford, so they are paying for it with cash also, but they are paying for it with their hopes and dreams being stolen from them. That's what made me angry.

There's this idea of: Should government do this or not? I feel like our conversation needs to evolve to: At what level is this best done? At what level of government should we be talking about these things?

I've come to the cynical conclusion where I feel that, in Washington DC, we are not going to get an answer to these problems. At the local level, we have an opportunity to do so many helpful, productive things, but so many of our cities are looking to the state capital and looking to Washington DC for the answer when the answer is literally sitting right in front of them if they turned around and looked at their own neighborhoods instead of this food chain of money. It makes me feel very Libertarian.

C. Austin Fitts: I have good news for you. For 30 years the interest rates have been coming down and there has been a long-term bull market in bonds. That's now turning. So the good news is that the spigot is slowing down and is going to stop.

Chuck Marohn: It's one of those cascading things, also. You see places like Illinois a step above 'junk' in their bond rating, and you can look at the EU and what happened when people started to realize that the Greeks can't pay this back, but now they're actually not going to pay it back.

You saw bond rates spike very quickly across the board – not just for Greece, but also for Ireland and for Portugal and Spain and Italy. I think that the untold story, or the story that is yet to work itself out with places like Illinois, is: What impact is this going to have on New Jersey and California and some of these other marginal, highly-indebted places?

You consider a state like Minnesota, which is somewhat in the middle of the pack in terms of pensions and debt and all of that. Are we going to be able to handle interest rates that are even 2, 3, or 4% higher? I don't see how we do that.

If you're in the bond market now, how do you justify that? Do you think that yields will get better? There is only one direction for things to go, right?

C. Austin Fitts: I think that interest rates are likely to go up a bit, but I'm not a believer that they are going to go up a great deal. Part of it is, if you look at the global governmental sovereign bond market globally, it can't afford for them to go up. To a certain extent, they have the clout and ability to keep it down, particularly with demographics.

I don't expect it to reverse and head back up, but I do think that we are headed higher. It's going to be 100 or 200 basis points max.

Chuck Marohn: I think the fascinating thing is that you have a system that – at this point – is so fragile that it could not handle higher interest rates. The fact that people can actually push down rates artificially, the unintended consequences of that are enormous. That's where I see this Federal system that has all these weird incentives and are completely misaligned with the incentives of cities.

It seems that one of these two is going to break, and they are codependent. So when one breaks, the other will break.

C. Austin Fitts: I wouldn't say that they are going to break; I think that they are breaking right now. They are breaking as we speak and that's why we are talking.

Chuck Marohn: Absolutely.

C. Austin Fitts: I think that they've been breaking down for a long time. It takes an empire a long time to die.

There is one DVD that I love and I think it was 1998 when PBS ran it. It's called *New York, New York*, and I think that it is a seven-DVD series. It's very long, but in the 3rd or 4th DVD they tell the story of the war between Bob

Moses and Jane Jacobs' vision of cities and cities' economies. It's really marvelous because you have Moses going through destroying local economies and poor neighborhoods by putting in these big, enormous infrastructure projects and basically causing the city to go into a recession. They were killing the economy.

Jacobs retorted and made an argument that I love and that I see on the Strong Towns website, which is that the poor neighborhoods are profitable and the rich are draining the city.

Chuck Marohn: It is so profound, and I think this is one of those liberating insights, that once you grasp it, it changes your view of everything.

When you inquire into Robert Moses, he actually checks off all the boxes of the progressive urban people who want the big spending program of Washington DC to come in and transform their city. That is Robert Moses.

It might not be highways through the middle of the city today. It might be condo units and streetcars and whatever, but it's the idea that these big top-down transformative programs would trickle down and have all of these effects at the neighborhood level.

What Jane Jacobs so brilliantly captured was the idea that the neighborhood level is where it's at; it's these small investments all coming together and interacting with each other and building on each other and having this virtuous feedback that helps them incrementally grow across this broad area that creates all the wealth.

If we stop today in 2017 and look at cities, what we see is that the neighborhood that we would generally classify as 'poor' or 'disadvantaged' or 'underperforming' are the places – when we just run the numbers – who are producing more tax revenue per acre than the places that we would label as 'successful' or 'new' or 'doing well'. We see this in city after city after city.

Your poorest underperforming neighborhoods are actually subsidizing everything else.

When we go to those neighborhoods and say, "Okay, this neighborhood is already killing it financially. How do we make it better?" the last thing that they need is some massive intervention. What they need are small little projects. Let's make this place work for the people who are here. Let's clean the street so people can cross it. Let's put some street trees in. Let's patch up this sidewalk. Let's do the little block and tackle, meat and potatoes kind of basic maintenance items to make this work because it's already doing awesome.

This is going to sound cynical, and I don't mean this on an individual basis; I mean it on a collective basis. If we really cared about the plight of poor and impoverished people and communities, we would transform our approach to be very fine-grained, bottom-up neighborhood-led, and would abandon this whole idea that there is some centralized big program we can do that will fix it.

If you go out and observe where people in these neighborhoods struggle and then try in an incremental way to address that, you're going to be making the highest returning investments you can make, and they're going to cost you nickels and dimes.

That is the Strong Towns approach right there in a nutshell.

C. Austin Fitts: Have you done anything with participatory budgeting?

Chuck Marohn: I have seen some participatory budgeting information, but I have never done any of that myself. I find it fascinating, but I'll tell you what my hang-up with it is. This is not a deal-killer; I think we can make it even better.

I think that with participatory budgeting, any time you do something at the local government level where you're asking people to come in and participate, you tend to get a certain spectrum of people, and it's not necessarily the people that you need to have there.

I think at the local government we've become very good at setting up this descendent of the 1970's environmental movements, which incorporated some social justice aspects. The idea was that we shouldn't be doing things without public input and public hearings. Engineers, planners, economic development people, and cities have become very good at doing the public process that is superficial and comfortable for them but doesn't actually get at what people need. I feel like participatory budgeting sits on the margins of that.

What we have advocated for is that if you really want to do public engagement, you don't ask people what they want; you go out and observe where people are struggling, and make small changes to adapt to that to see if it helps their struggle. If it does, you then improve on that and make it better. If you don't, then you try something else.

What we have advocated for is that if you really want to do public engagement, you don't ask people what they want; you go out and observe where people are struggling, and make small changes to adapt to that to see if it helps their struggle.

If you consider Steve Jobs, he said, "If you ask people what they wanted in the 1980's, they would have said, 'I want a better Walkman.'"

In government we're somewhat stuck with that. You ask people what they want, and they say, "We want a big factory to come in and create jobs. We want a big project to employ people."

I'll point to Memphis, Tennessee as a great example of this. When you humbly observe as a city professional – get out from behind your desk – and humbly observe where people are struggling day to day in your city and try to respond to that and fix it, you are doing the Lord's work. You are printing money for your city financially because you're making very high returning investments that don't cost very much, and you are improving people's lives at the same time. That is where we are in 2017.

C. Austin Fitts: One thing that is coming upon us is, we are watching enormous change in the economy coming from technology.

About five years ago as I was driving around – and I travel considerably by car in the United States – what I was seeing was that the traffic at the malls was slowing down. You had big warehouse installations happening throughout the country, five or ten miles further out.

So you definitely have changes in retail that are happening, and we know that the driverless cars and trucks are coming. When they are coming is a totally different issue.

All of these things basically indicate that our infrastructure needs could change dramatically yet are people actually planning for them, and do we know how to plan for them?

Chuck Marohn: I think it's bazaar that anybody alive today in a position of authority could do anything like a 30-year or a 40-year projection. Whenever we do a big infrastructure project, we do those all the time. We do 50-60 year projections.

"Here is what the traffic is going to be in 40 years."

We are in 2017 and look back to 1987. Show me the person who could have projected where we are today, and that level of change has accelerated.

I look at technology in two ways. There is no question that technology is having an impact on who we are, how we live, and it's shaping our very lives every day. But I think that it's important to grasp that the problems that our cities face are not going to be solved with technology. In fact, the Lafayette problem where you have $2 of public investment to maintain from $1 of tax base, there is no technology that will solve that. That is a math problem that is going to work itself out in really, really destructive, painful ways.

I feel that technology is bringing us to the point where – to throw a literary/movie reference at you from the *Hunger Games* – we seem to be evolving towards a Panem type of situation where you have some people who are going to be living at a certain level of technology and lifestyle that is very, very high and be surrounded by many people who are experiencing maybe bit of that in a way, but not living the full set of automatic cars and fancy devices and wholly connected where you can get into realms of healthcare and everything.

I feel that we are setting up a situation where this divide between the rich and the poor that we have so much angst over today, technology is – in a sense – an accelerator of that. Our development pattern is locking that into place.

C. Austin Fitts: I agree with you that that is happening. I spend a great deal of time simulating what would happen if we turned 'return on investment' to positive for the taxpayers. I was looking at the Federal budget, and state and local would be profound. If you only take Federal investment to taxpayers and turned it to positive, the wealth creation was so enormous and I have the smartest person working for me to simulate it. He kept returning and I kept saying, "Henry, that is wrong. It can't possibly be that big."

When you understand how negative the existing return on investment is, all I can tell you is that if the day should come that we turn it positive and all government investment is subject to the kind of standard that private capital is subject to, oh my God! The ramification is mind-boggling, and I'm not talking about technology; I'm only talking about common sense.

Chuck Marohn: Let me flip that around in a way. I had this experience when I was running the numbers in the mid 2000's. I started doing return on investment calculations on projects that I was working on. The ones that I knew as an engineer, "This is a great project. This is really going to work out great," and I would run the return on investment analysis with real math and real numbers (not equating time saved in congestion to dollars). This was dollars in, dollars out.

I found that the best projects were catastrophically negative return on investment. They would return $0.10 or $0.15 on a dollar. I would look at this, and my first reaction was, "I have done something wrong. I am calculating this incorrectly because there is no way that this is so negative."

But then I started to do more and more and more, and the evidence became overwhelming to me that this is a disaster and it subsumes so much wealth.

I think that if we only stopped building new things, the return on investment of stopping would be enormous.

It's almost as if you quit shooting yourself in the head over and over and over, you're going to be better off. If we could just stop, we would be in a better position.

C. Austin Fitts: Exactly.

Chuck Marohn: You could actually take it and do something positive. Oh my gosh! I can't even imagine that world or how successful that could be.

C. Austin Fitts: I want to get you back on The Solari Report to only talk about what would be possible if we did it.

Chuck Marohn: That would be fun.

C. Austin Fitts: I come at this from the other side of the balance sheet. I'm an investment banker, I do investments, and my entire interest is money. So I come at it from a completely opposite end, but what I will tell you is that all of my estimations show that if we could turn this around, the wealth creation – and I don't just mean the financial wealth creation; I mean the human and intellectual capital wealth creation – is mind-boggling.

I continue to be an optimist because I've seen the numbers. I think most good-hearted people struggling to make things work underestimate the incredible harm this complete machinery has done across the board – whether it's to people or to the environment. This is a killing machine. I think if you turn it around, the impact ecosystem-wide is absolutely wonderful.

We're coming up on the hour, so let's turn to the Strong Towns network. Our subscribers all want to do more local. I think that every Solari Report subscriber needs to subscribe to Strong Towns and become a member.

What I would request for you to do is briefly walk through your website, through the blog and the podcasts and the events and tell us what is there and what someone coming in and looking will see. "Should I become a Strong Towns member?" Tell them what they can get if they do.

Chuck Marohn: For us, the main thing is to become part of our audience. If you feel compelled to be a member once you're part of our audience, that is wonderful.

What we are trying to do more than anything is grow our audience and share our message. This entire thing started as a blog. We have transferred to a full media site and are a media organization sharing a message.

If you visit our site, you will get three or four articles a day, podcasts, and videos talking about these things in different ways. We have a very ideologically diverse audience. People talk much about diversity, and I think we capture this very unique part of America now, where we have people who are very left of center and very right of center. We have a very interesting ideological conversation happening.

You're going to see articles on 'Making Your Streets More Walkable' and how to do that. You're going to see articles on 'The Federal Reserve and the Policies of the State and Federal Government.' You are going to see things on transportation and housing.

We are trying to grow a conversation about how we make our cities financially stronger and better off, and that is a multi-faceted thing. We have created a Slack channel, and have almost 1,000 people now who are chatting on Slack. We've set up regional conversations, so there are people hyper-local discussing this subject. There are people talking about it on a national level. There are places to go to figure this out and discuss about how this would work in your place and meet other people.

We have people who meet on Slack and then do things together. It's been incredible.

We have almost 2,000 members, and a number of them participate in our site. They sometimes have their own blogs, and we will run their topics when it's good. They can share the things that they are working on and what they are doing.

If you become a member, we do some member things. Every now and then we'll do a webinar where members can ask questions and be part of the live webinar, but we really don't have 'member exclusive' things because our whole thing is about trying to share this message with as many people as we can.

C. Austin Fitts: I think Strong Towns is a great website to understand, both what is happening, and the same dynamics are happening in every municipality – every town and every county.

Chuck Marohn: Isn't that crazy?

C. Austin Fitts: No, because if you examine the financial model, the financial model is essentially pumping out capital at a zero or a negative cost of capital, and there is no calculation or internal financial control to put it through the proper investment hurdles, etc. So of course you're going to get a mess.

Chuck Marohn: Everybody thinks that their city is unique. I have to clarify it to everybody that, "You're not."

The entire lesson of 2008 – the people who put together the collateralized debt obligations with the mortgage-backed securities –assumed that California was uncorrelated with Florida and was uncorrelated with Minnesota. No, they are perfectly correlated.

C. Austin Fitts: Not for discussion today, but I was Assistant Secretary of Housing during the first Bush Administration. I tried to stop the fraud. Then I had to leave, and I was rehired as Lead Financial Advisor during the Clinton Administration. Again I tried to stop the housing bubble.

The housing bubble was engineered by the Treasury and the central bank top-down. Yes, the Fed member banks did it, but it was very much engineered from government because the housing system is very socialized.

Anyway, there was a group of us who tried to stop the housing bubble. We said, "No. America needs to shift taxpayer investments to positive return, and we need to pay down our debt, and we need to build these skills. Otherwise, the middle class is going to get wiped out, etc.

We need to rebuild places in a way that is going to make money for the pension funds so they can meet the targets, etc. That vision was rejected. They said, "No, let's bubble the economy and suck as much capital out and move it abroad." So we were run over.

The reality is, I used to drive around, and I would literally drive through a city and see these large housing developments going up with 3,000, 4,000, or 5,000 square feet in the suburbs, knowing full well that there was no way that either the homeowner or the municipality could support this infrastructure over the next 20 years on an economic basis. I watched it all being built in a way that would put everybody in the hole and I cried driving down the highway.

Chuck Marohn: I had about six months where I said, "The only thing that I can do is build a bunker in my backyard and stock it full of food."

It was so depressing! I've moved on from that and I see hope now where I didn't initially.

I went to one city where they were doing a plat for a new development. They were putting in 25 new lots. I actually did an analysis and showed them, "At the current rate we are building homes, which is the peak because we've never built as many homes in one year as we did last year, if that rate continues every year, it is going to take you 125 years to develop all of the lots that you have today with roads and sewer and water and everything ready to be constructed. It's going to take 125 years. That means that your property is worth zero and you should never plat another lot because this market doesn't make any sense."

Do you know what their response was? "Chuck, we don't pay you to think like that. We want you to just process this."

C. Austin Fitts: "You're being negative."

Chuck Marohn: Right, "You're being negative. The market will work that out. You're not smarter than the market. Just do your job."

C. Austin Fitts: The market was levitating on financial fraud, and they needed to put out more fraudulent paper.

Chuck Marohn: That developer actually went bankrupt. I have to admit, guiltily, and I will go to confession over this, that I took some glee in that guy's demise. He was a jerk.

C. Austin Fitts: Strong Towns also has events around the country?

Chuck Marohn: Yes.

C. Austin Fitts: Can you tell us about the events that you're doing?

Chuck Marohn: I get invited to speak at many places. We have a program called the Curbside Chat program where we come to your community and share this message. I also get invited to speak at many different places where people are trying to change the conversation.

I feel very blessed to be able to do this. When you can sit down with a group of people for a couple of hours and share information with them and then have a conversation, it leads to a significant moving of the needle.

I started doing this in the very early days here in central Minnesota. Then I got invited to speak in North Dakota and I got invited to do an entire tour in California. I have to say that I have learned so much. I've been to every state now except for Hawaii and Alaska, and I have learned so much from seeing this country through Strong Towns' eyes and being able to have these conversations all over. That has allowed me to do this even more effectively.

One of the key things in any gnostic system is to tinker with language. What this does, in effect, is signal your subservience to the agenda.

The Curbside Chat functions and the events are the most powerful thing that we do. I'm headed to Indiana in a week and a half. I'm in a bit of a travel lull now, but as soon as September picks up, I'm travelling every week until the end of the year.

C. Austin Fitts: In all your travels, have you hooked up with the Weston Price Foundation groups around the country?

Chuck Marohn: No. I feel somewhat ignorant; I've never even heard of Weston Price.

C. Austin Fitts: This is a name that I want to give you. The Weston Price Foundation is the foodies. If you study where the growth is going to occur, economically it makes sense for far more food to be grown locally for a variety of reasons when you look at the economics across the entire ecosystem including healthcare. Improving nutritious local food is usually highly economic in a place, particularly if we change and get out of the debt growth model and into more equity.

Weston Price has built networks of people working on this who are some of the most positive people, and my guess is that the Strong Towns and the Weston Price networks need to meet each other.

Chuck Marohn: Yes, I love talking with interested people. Seriously, you and I have never chatted before, and I am finding you absolutely fascinating.

Yes, I go around, and when people ask, "Where do we start?" local food is something you can already see happening from the economics of the empire – the food system delivery internationally. It's the weakest link, and it's the easiest thing to replace locally. You see it happening throughout the country, and I find it fascinating.

C. Austin Fitts: If you look at the food system, much of the food system has been engineered to be centrally controlled by Federal subsidies and Federal rules. Once those subsidies start to go away, the economics revert to something much more local.

I'm making a list of conversations I want to have with you on Strong Towns.

Chuck Marohn: I was in Wyoming and met these people who were doing farm to table there. The interesting thing – and this is why I feel lucky to be able to travel as much as I do – is you find these places that are on the margins. So if you're in Wyoming and a farmer, all of your produce gets shipped through Duluth. So you obtain the price of beets in Duluth minus the transportation cost, and are getting the lowest cost in the country for your Ag product.

Conversely, when finished product are shipped back to you, you pay the price in Duluth plus the transportation cost, so you pay the highest price in the country.

The man was showing me, "A box of Cheerios costs more here, and we receive far less for the grain that goes into it. So we just make Cheerios here locally." They don't call them Cheerios because that's a brand name, but they make their own grain cereal. It's easy to do, and it costs less, and it tastes better.

You analyze the margins, and you see how they can do it. Then you realize, "Oh my gosh! This same thing applies here, but there is no incentive to do it because we are inundated with the grocery stores and everything else. Who is going to do this?" But people are starting to, and it's fascinating.

C. Austin Fitts: There are many conversations that I want to have with you.

Chuck Marohn: Likewise.

C. Austin Fitts: Tell us again your URL and how we can access and learn more and sign up.

Chuck Marohn: You can find us at www.StrongTowns.org. If you're on Facebook or Twitter, we post many things there and are having very active conversations. Just look up 'Strong Towns'.

If you are interested in Slack, go to www.StrongTowns.Slack.com. We have one of the most active conversations anywhere today happening there, and we welcome you to be part of that as well. Thank you so much.

C. Austin Fitts: Let's say that I'm accessing Strong Towns and I want to find one thing that I can do in my local area. Where would you send me first? Where do I find great ideas for what I might do in my place?

Chuck Marohn: If you were brand new, I would say to go to our Newcomers page. If you scroll down, there is a large button that says, 'New to Strong Towns? Start here.'

We have tried to make that introduction as easy as we can for you. But if you want to go right to 'What do I do?' then go to www.StrongTowns.org/success. What you're going to get is a long, long list of success stories – stories of people who are motivated by Strong Towns conversations who go to their communities and do things.

Some of them are big, and some of them are really very small. There are a number of things on there, and you can be inspired by that and get ideas for what you can do in your place.

C. Austin Fitts: Great! I can't thank you enough for what you're doing, and I can't thank you enough for joining us on The Solari Report. We want to get you back.

Chuck Marohn: Thank you. I feel as though I've met a new good friend today. Any time I can find someone like you who grasps this and who is intelligent and I don't have to explain why the world is crazy, we can use that as a starting point.

C. Austin Fitts: Can I tell you one more story?

Chuck Marohn: Please.

C. Austin Fitts: When I became Assistant Secretary of Housing, during the first 30 days I found myself lobbied by real estate folks and mortgage bankers and all sorts of people in the construction industry. I had this growing sense of free-floating anxiety. Something was terribly wrong. Finally, I realized that they were all lobbying me to do what makes their stocks increase, but nobody really cared about the health of a place. I thought, "This is way out of balance."

I was being lobbied to make the Dow Jones index go up, but nobody cared about the health and well-being of a place.

The economy works bottom-up. So I contemplated, and I came up with something called the Popsicle Index. The Popsicle Index is the percent of people in a neighborhood who believe a child can leave their home, go to the nearest place to buy a Popsicle, and return home alone safely.

I started to look at all of the government money, and went back and looked at the HUD budget over many decades. One thing that I saw was that the Popsicle Index was falling steadily in those places while the Dow Jones was rising. There was this perfect inverse correlation.

One thing that I realized was that if you examine the financial value of a community – both the real estate and the businesses – there was a remarkable relationship between the Popsicle Index and the value of the real estate in businesses.

Of course, the most vulnerable are the children. If the children feel safe, then the adults feel safe. If people feel safe, then there is a lot of trust going around.

If trust happens, people want to live there – particularly if there is good education and the economy starts to flow. The next thing you know, you have a high Popsicle Index and there is a correlation between the Popsicle Index and the value of the businesses and real estate.

Chuck Marohn: Absolutely.

C. Austin Fitts: My theory in the 1990's was: Let's go into a place, let's make an investment in a place that has a low Popsicle Index, and let's get the Popsicle Index up and make a large amount of money. It was that simple.

Chuck Marohn: Nice.

C. Austin Fitts: But that opportunity still remains to be done. The Popsicle Index is only a way of expressing the living equity in a place versus the financial.

We've watched interest rates come down in the long-term bull market and bonds. The government was pumping out bond money, but then the Dow Jones was going up, up, up. One of the reasons you feel there is no money is because there is an inverse relationship between the Popsicle Index and the Dow Jones index. But, in fact, you could reorganize the financial system so that you had a win-win relationship. So instead of having a lose-lose relationship between the Popsicle Index and the Dow Jones index, you had a win-win relationship. In fact, if you create the conditions of that win-win, then suddenly all of the Dow Jones players have a reason for your type of planning standards to occur.

Chuck Marohn: Right. If you gave the Popsicle Index to someone with a Jane Jacobs mindset, they would try to localize everything, make it fine-grained, give a lot of complex feedback in place, and start incrementally building something.

If you give the Popsicle Index to someone with the Robert Moses mentality, they are going to go out and have a government program to put a Popsicle stand on every corner, right?

C. Austin Fitts: Right.

Chuck Marohn: They would be saying, "Okay, we've met the metrics now."

C. Austin Fitts: My favorite thing with the Popsicle Index is to say to people, "Here is 100 points as in 100%. I want you to define for me what is causing your Popsicle Index to go down."

In fact, at one point we had had a group of grade school children and were teaching them how to use video cameras so that they could go around their neighborhood and make small films about what was causing their Popsicle Index to go down. It's just what you said about finding out about what is causing people problems, and then only fixing those.

Chuck Marohn: Exactly, yes, and the thing is that I almost feel that it's too easy.

I talk to cities, and I talk to professionals. They are smart people tied up with all of these grant programs and big projects and all of the things that they are trying to do. You tell them, "Go out and figure out where people are having trouble crossing the street, and make that easier."

It's seems as though it's beneath them; it's too simple. I almost get the impression that if we could get some professional humility, we would realize how powerful that is.

C. Austin Fitts: Right. I think that you are making the Popsicle Index go up throughout the country.

Chuck Marohn: I hope so. Thank you so much.

C. Austin Fitts: Keep it up, and thank you for a wonderful conversation and I look forward to talking again.

Chuck Marohn: I do as well. We'll chat some more and you take care.

C. Austin Fitts: Goodbye.

In other words, what I'm suggesting is that if Congress is not going to address this, I suspect that you're going to see various countries around the world increasingly band together to demand explanations from some of these big banks. They may be able to boon dog the US Congress through their control files, but I don't think that they are going to have much success with the Kremlin or with Beijing. This is something I genuinely want to warn people about. It's my suspicion that you're going to see some international pressure beginning to build on these banks.

The problem here, Catherine, geopolitically is that it is going to show the US government for being the corrupt front for these interests that it is.

C. Austin Fitts: Here is the interesting thing: We are trying to keep the Germans from getting together with the Russians. The Russians ban the GMOs. The duma ban was a big event in the 3rd quarter. At the same time, we're squeezing the Germans on Deutsche Bank and Volkswagen, and suddenly a German company comes in at a 44% premium, taking everybody out at Monsanto, and you wonder if the Russians forced us to do that. The GMO thing is seriously, seriously stalled.

Dr. Joseph Farrell: It is seriously stalled. Even in Europe there is opposition within Germany and within France and Hungary – those three countries particularly – against GMOs. Like you, I'm wondering exactly why Bayer decided to do this. I'm also mystified at the fact that Bayer had that much cash on hand do even do that.

I'm wondering exactly the same thing: What is going on here? It's going to be interesting to see how it plays out. I think that if you look at the United States and Germany, it appears that there is some sort of tug-of-war going on between these two countries regarding Germany and the course that it wants to take.

C. Austin Fitts: Right.

Dr. Joseph Farrell: I don't expect Merkel's government to last much longer, quite frankly. Even she is backpedaling.

C. Austin Fitts: Oh, she's been delivered quite a blow in the recent elections.