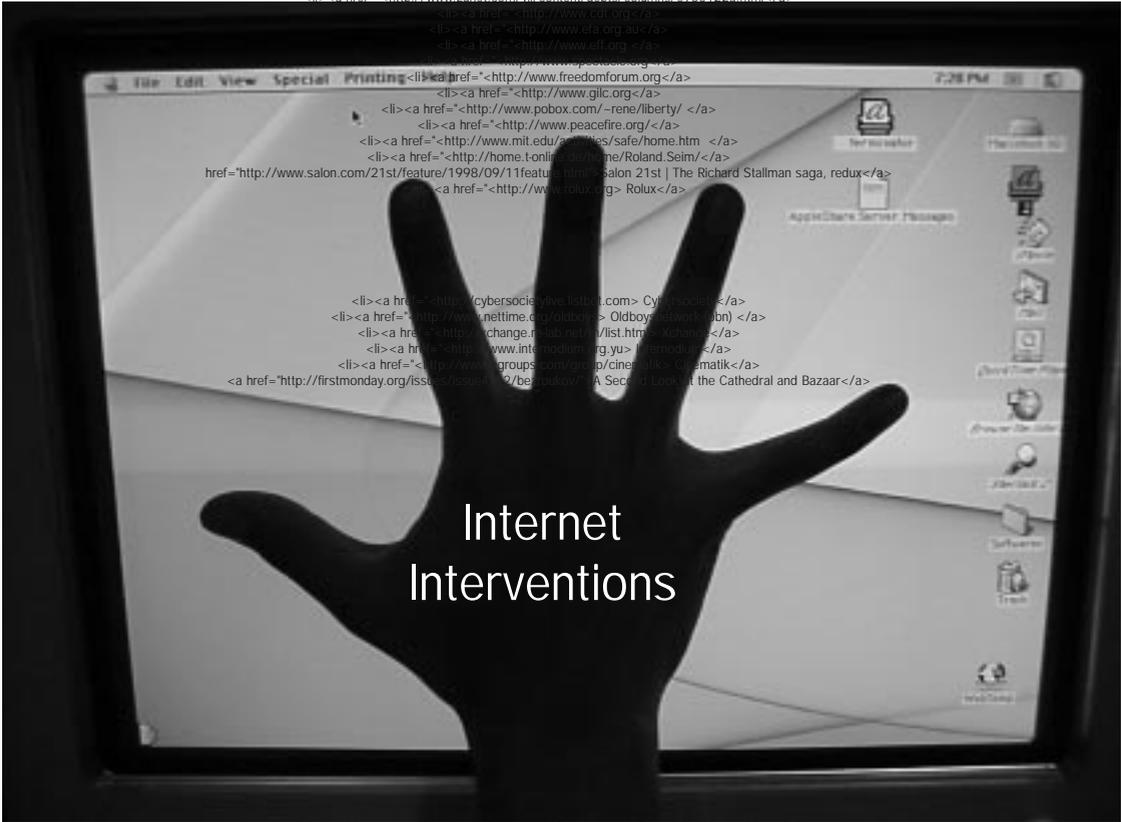


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<li><a href="http://www.cybersociety.com/">Cyber Society</a>
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 <li><a href="http://www.themes.org/">themes.org - Interface Enhancement</a>
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# Internet Interventions

# The Rise and Fall of Dotcom.mania

## Cyberculture in the Internet Economy

GEERT LOVINK



### Old Hat, New Economy

With the NASDAQ having lost half its value, tech stock owners wished Baudrillard's saying "The Year 2000 did not happen" had come true. Arguing from a perspective of critical cyberculture, there is little reason to celebrate the downfall of Internet start-ups. Populist anti-speculative sentiments and moral anti-capitalist stands are on the rise. History is not on the side of those who predicted the failure of the New Economy and, for whatever reason, stayed out of business. Let's leave the bashing of failed millionaires to others ("Dotcom is the weakest link, goodbye"). No matter how silly and fraudulent the dot.bombs business plans were, what will replace them is certainly not going to be any better. The dialogue with techno-anarchists and libertarian entrepreneurs is a fierce one, the one with corporate media and IT-moguls non-existing. Those who care about civil liberty, open standards and social change towards an innovative, technological culture through software development, investment strategies and cultural activities should prepare for a phase of fierce market nihilism. The festive part of the Internet economy is over. An age of normalization is setting in, necessary to make up for losses and failed investments.

Forget business magazines such as *Red Herring*, *Fast Company*, *Wired* and *Business 2.0* and their religious positivism. Perhaps with the exception of the [www.thestandard.com](http://www.thestandard.com), the Watchtowers of the New Economy have willingly been blind after what happened in the aftermath of the April 2000 NASDAQ downfall. The resemblance with Communist party news media in the former Eastern Bloc is remarkable: organized optimism, neglect of basic figures mixed with portraits of heroes, achieving miraculous breakthroughs at the forefront of financial schemes. Dotcom propagandists keep on repeating their mantra of bankruptcy as a spiritually cleansing experience, hoping that the storm won't be that bad after all. Venture Capital money moved on from unsafe, open and free web to the next big thing, the proprietary wireless systems where at least a payment system is already in place. Yet, the world of venture capital has remained rigorous as ever, blaming "over publicized dotcom

failures and an unfriendly stock market" ([www.tornado-insider.com](http://www.tornado-insider.com)) for the overall malaise.

There won't be many innovative Internet ventures any time soon. What is actually happening is the integration of the start-up work force and expertise within the existing corporate structures. No spectacular takeovers or mergers. No sudden crashes or massive firm closures. Some will call it a necessary restructuring of the sector. I would rather call it a process of silent (dis)integration, disrupted and exhilarated by bankruptcies and scandals. It will take a while to unravel the dark side of the electronic gold rush. Countless dirty deals are being uncovered made by lawyers, stockbrokers and accountants who all had multiple roles in the IPO mania with firms acting as auditors, advisers and independent experts (see the *Australian Financial Review* of 28 & 29 December 2000 who surveyed 106 floats over a two year period).

New cynicism is setting in. Under the title "Pinnacles and Pitfalls of the Internet" Joseph Nocera and Tim Carvell sum up "50 sharp lessons" (©*Fortune*, reprinted in *Australian Financial Review*, 29.12.2000). Many of them do not go any further than stating the obvious. "A website is not the same as a business", "Banner ads don't work", "Nobody wants to buy shampoo over the Internet", and "Physical stores are wonderful things". The one-liners are not at all ironic nor show any proof of vision to deal with the current setbacks. Rather, the business paparazzi is armouring itself for a backlash campaign against the entrepreneurial big mouths. "Youth is not the same thing as intelligence", "'Cool' is not the same as profitable", "Day trading is a sucker's game", and "The Internet has been a gift to charlatans, hypemeisters, and merchants of vapours." The mood is getting resentful: "If you have to ask 'What's the business model?' there shouldn't be any stock" and "People who left good jobs for speculative options got what they wanted". In the same way as all these virtues were praised one year ago they are now denounced. No sign of anti-cyclical intelligence here.

In good or bad times, Internet business consultants are always right. In rosy times they will predict infinite growth of stock values because of predicted hyper-growth. In times of recession they will blame the very same market they trusted a few months earlier. Is there anyone to blame here, one wonders? The experts of Andersen Consulting, Deloitte, etc. seem to get away with everything. There is no accountability whatsoever. It is like suing the weatherman for a bad prediction. How about bringing Internet gurus to court, charging them for ignoring key business figures, selling unrealistic high price-earnings multiples?

In the Internet economy, technological change is a complex, dynamic, integrated system. It's direction is increasingly dictated by financial markets, which are no longer just 'feeding' the IT industry with capital from the outside. Investment decisions of venture capitalists direct the way in which technology is being developed, thereby effecting the course of technology. A cloudy, dense information structure is intrinsically intertwined with its object (Internet technology, wireless applications, telecoms, hardware etc.). This hypersensitive environment is also open for a variety of factors such as currency exchange rates, interest rates, and even, to some extent domestic and foreign policy. And let's not forget the prize of crude oil. Factors which all define the technological state of the art itself as parameters, constantly changing settings which have to be closely monitored. The media, be it television, print magazines, or Internet, are in constant feedback with both the finan-

cial markets and the technological sector, becoming one big PR marketing machine. Competition does not lead into diversification of opinions and formats. Within this turbulent climate of 'digital convergence' there is little interest in independent reporting and critical research in new media and IT development.

### **Sloganism:**

"All hope, design could bring salvation should be eliminated". (*Genc Grevia*); "Don't stop thinking about the Internet"; "You are only human once"; "Open Monopolies for an Open Society"; "After the Culture Clash" (book title); "Virtual Companies are Paper Tigers"; "The Global Province"; and rhetoric after Heidegger: "Why do we remain in the Internet?"; "Virtual Failures" (conference title); "Virtual Empire: Its Golden Age, Conceptual Renaissance, Nihilistic Moment"; "I have written six theories on cybercities. They can't all be true". (Johan Sjerpstra); "We will be where the consumers are". (New Chinese saying); "The Will to Design: Overcoming Entertainment"; "Resistance is Fertile" (T-shirt); "Decide or Consume"; "Build your own Internet Observatory" (Toolkit); "Extend your cozy feeling" (Baleno); "Have you heard about Minispace?"; "Revolution 'R' Us"; "No reconciliation with artificial nature" (graf-fiti); "Lead me to the wrong side of virtuality" (song).

### **'Napster This!'**

But does art really want to be free? The decentralized exchange of music files through the so-called Napster ([www.napster.com](http://www.napster.com)) service has put the recording industry upside down. While the 'Metallica' court case is still on, Bertelsmann and a few other record labels recently announced it had made deals with Napster. By stepping up their Zuckerbrot und Peitsche (punish and reward) strategy, the media giants managed to even more increase their pressure on Napster to alter its model of free content exchange into a subscription based, money making operation. Whereas post-Napster initiatives such as Gnutella and Freenet are gradually establishing themselves as true 'peer-to-peer' models without any central server, MP3.com announced it would pay back the recording industry hundreds of millions of dollars for loss of copyright.

The overall picture here seems to be a confusing one. Obviously, some very real contradictions within global capitalism are on a sharp increase, without a synthesis or compromise in sight. There is no such thing as a Digital Third Way. Whereas more and more data are floating over the networks, there is a similar hyper growth of data stored away behind password protected IP-walls. The pressure on the New Economy to finally come up with a real cash flow bumps into the marketing tactics of the very same breed of people who put out free content, attracting new audiences in order to establish their customer base. Two contradictory strategies, coined by Arthur Kroker as the 'facilitating' and the 'harvesting' colliding in a spectacular fashion.

Artists seem to be as confused, and divided, as anyone else. No right or wrong here. There is not even a common sense liberal-leftist position. Debates on the international mailinglist nettime, for instance, did not show any direction or conclusion over the Napster issue. You can follow the thread in the [www.nettime.org](http://www.nettime.org) archive, starting on July 23, 2000 with a posting called "Terror in Tune Town". Against the aggressive libertarian stand

("Information wants to be free") which is embedding itself into code and network architecture, there is the legitimate call of those who have to make a living out of that very same piece of information hackers and others are putting out into the digital public domain. Anyone ever heard that art wants to be free? No. Art wants to be paid for. Lots of money, if possible. Or a decent price, depending on one's expectations what's life is all about. Code writers are taking the avant-garde position here. Those who write the software are creating facts here, not the artists themselves. Nor are other 'content' producers such as journalists, critics or activists. They can sadly only discuss the consequences of the technologies. Lawyers could do some harm to the further spreading of peer-to-peer software, but probably not much. The situation seems pretty much out-of-control, with the average user as the one who is benefiting most.

One 'lesson' disturbed the traditional business community most: "Give stuff away is an easy way to make friends and a lousy way to make money". Related is the secret wish of many CEOs that "some day e-mail will not be free", resulting in the statement "the person to figure out e-cash will be a billionaire". (thereby showing that this duo hasn't learned a thing from dotcom.mania). The proposal of Esther Dyson, J.P. Barlow and others to build the Internet economy on the principle of the gift, may have worked in the mid and late nineties. Free information, entertainment (mp3), access, and at some stage even free hardware created the critical mass of users for business to step in. In retrospect we can call this the age of hyper growth (1995-2000). Venture capitalists would finance anything as long as it was growing. That is, growth measured in click rates. During this first Internet recession there is a tendency to focus on core information technologies, thereby excluding content and even services. Any business which is using the Net as a mere marketing tool to sell non-tech items such as real-estate, pet food or wine will face hard times.

The magic year 2000 turned out to be a turning point. The internal contradiction between the fascinating 'luring' aspect of the free and the pressure on Internet companies to come up with real revenues hit the surface. Many start-ups found themselves in a downward spiral after the first quarter, with tax payments coming up faced with high bills for marketing (billboards, TV commercials and adds in other 'old' media) and, first rounds of venture capital having dried up. And costs have proven to grow exponentially: "It takes \$10 to create a technology, it costs \$100 to create a product and \$1000 to take it to market with distributor channels and marketeering materials". (John Chambers) The burn rate of concepts, friendships, health and communities has been a high one. With stock options reaching negative territory the organized fun is over now. It is time to think security again and put the fairytales of risk taking heroes aside for a while.

In 2000 'e-commerce' was scheduled to break through. A certain percentage of the created client base was supposed to reach the trust level of buying goods and services online. As an avant-garde of the free grazing herd, early adapters would pass the dam, creating a true Internet economy, based on real dollars, extracted from the old economy, inserted in the Net via the credit card system. Presuming that the model of the early-mid nineties of early users of the Net would repeat itself (the ISP-phase), thousands of businesses were hastily founded, first in the United States, soon followed by like-minded entrepreneurs in Europe and Asia, ready to receive the first electronic consumers. Some indeed

showed up. The 'pro-sumers' purchased a bit here and there (mainly software and books) but not enough to match the wildly optimistic predictions. The B2B-model (business-to-business) was introduced as a hype to compensate for the not fast enough growing business-to-consumer revenue stream. The hugely expensive development costs for B2B were projected to be profitable only in the long run and only postponed the upcoming flaw in demand of IT products and services.

By mid 2000 e-commerce was dead, meaning that its modest growth had proven unable to reach the predicted revenues the overall Internet economy needed to go to the next round of hyper growth (and VC funding). The dependency of the IPO-ed companies of their overvalued stocks was the main reason why the downward spiral after April 2000 set in so rapidly. The speed religion of the New Economy ("Not the big will eat the small but the fast will eat the slow") turned against itself: the higher you fly the deeper you fall, with the unfortunate, some will say inevitable result that the mammoth chewed the hasty.

Most likely to survive are the companies in the shadow, not listed on the stock market, with a sustainable growth model and real revenues, or even profits. "Cash will be king" as Shannon Henry stated in his 2001 outlook in the Washington Post (December 28, 2000): "The gleeful, easy, everyone-is-getting-funded attitude has been replaced by skepticism, gloom and massive reversal of fortune. The shakeout will continue until many companies' pockets are completely emptied". After a golden age of fifteen years we would come under the law of diminishing profit, as Brad DeLong stated back in 1997 (see: [www.rewired.com](http://www.rewired.com)).

The Napster craze of mid 2000 did not help to establish the badly needed stream of real dollars. (see [www.napster.com](http://www.napster.com)) According to the prophets of Free, services such as Napster would crumble the old, in this case the recording industry, and install a new economy, with new rules and new players. The first may have happened to some extent but the latter certainly is long way away. E-commerce offspring from Napster, Gnutella, Freenet and other peer-to-peer networks has been disappointingly low. Even though sales may have been substantial in individual cases for independent artists offering work for free on the web, the overall economic situation of 'content providers' remains bleak. With no e-cash system in place users will only pay for essential information such as financial newsletters. First attempts to sell PDF documents online such as [www.soapbox.com](http://www.soapbox.com) remain promising but have not made it outside of the banking and finance sector.

First it was software code, then the written word (essays, articles) which have gotten 'napsterized'. With the increased capacity of chips and pipes, technology then enabled us to turn music into files of a reasonable size. The MP3 files Napster users download seem really tiny by today's standard. It will only take a few years from now until the free exchange of compressed feature MP4 films with a fabulous screen quality will be a fact. Watermarks against copying could split the consumer base in two - with the ones who don't care about copyright on the one and those who are not that techno savvy on the other hand. This is a similar split known in the case of software. Those who are somewhat clever and think they can get away with pirated software will do so, even state in public that they do not want to further financially support the Microsofts. The innocent majority will by and large agree with this but won't know what to do, until a Napster kind of service enters the stage. It will offer free video porn, software, exclusive financial information, anything people now pay a lot of

money for.

In this situation artists who have withdrawn (or stayed) into the world of the material objects seem to be the only one not being effected by the inevitable napsterization of all 'content'. All the rest will be drawn in endless fights between the freedom of distribution and intellectual property.

**'The vista, not the endpoint...'**

For those allergic to US-American corporatism, the above-sketched reduction of Internet to a money machine might be depressing. Time to withdraw and resign? Ignore the overall image and continue to work on what needs to be done? Sit on top of the hill, and watch the state-monopoly capitalist destruction of the Net pass by? Is any utopian vision of an equal (re)distribution of knowledge, resources and power not in immediate danger of being incorporated by the same forces, this time with a 'Third Way' label stuck on it? We may not wish to fall back into anti-American luddite positions, nor sell cheap, outworn solutions which may, or may not, have appealed to the early adopters, the so-called post-89 Generation X, five or ten years ago.

According to Hannah Arendt, this conflict, the one between utopia and negativism, cannot and should not be solved. To paraphrase Arendt's reading of Plato's Republic, we could say that we should not seek the immediate beauty of new media concepts. The Internet must be chaste and moderate if one is to sublimate his or her erotic drive and profit from it. If we follow the analogy further, cyberspace should supplement its knowledge of Ideas with knowledge of the shadow of the realm of the Digital. If the Internet is to illuminate the darkness, not add to it, it must begin by taming its own utopian promises. The (self)containment of cyberspace should be rooted in a call for responsibility, not in passively delegating power to the state or the market.

One could call this strategy the 'civic hedging' of cyberspace, *das Aufhalten des Netzes* in German. In times of hyper growth, the proposal to hold up the development of a technology may sound conservative, but its aim is to protect it from being reduced to one single quality, to one single idea - shopping mall and money machine, total work and total entertainment environment. This first of all means upholding the childish dreams, with its seamless possibilities of space after space, thrilling experiences, and fortunes to be made. The aim here is to prevent Internet from turning into a nightmare (from which it then has to awake).

In order to achieve this, neither does the utopian vision have to be eliminated, nor do we need to withdraw onto the apocalyptic pole, which states that the world and its network will collapse anyhow - with or without our interference. The conflict between utopia and negativism Hannah Arendt is aiming at, needs to be played out. The deeper we are drawn into the virtual, the more there is a need to stage its inherent paradoxes and contradictions. A willing suspension of belief!

In the pragmatist view, principles are 'abbreviations of past practices'. The same can be said of the Internet dictum of open architecture, decentralized structure, copyleft etc. These features, formulated under the spell of post-68, Vietnam and the Cold War, need to be historically framed, in order not to be turned into a crusty, moral belief system. It would

be naive to hope for a computer network 'which cannot be used by the political right, one which will lend itself only good causes'.

I am following here what Richard Rorty is writing in his book *Philosophy and Social Hope*. Pragmatists, according to Rorty, do not believe there is an essential essence, a "way things really are", beyond all appearances. This is doubly true for the 'essence' of the Internet, which in pragmatic terms is neither good, (liberated by the free market) or evil (dominated by monopoly corporations). Rather, Rorty suggests that we try and distinguish between descriptions (of the Internet, for example) "which are less useful and those which are more useful". Concepts describe things, rather than reveal their essence.

We can think about this in relation to the question of the metaphors applied to the internet. Some of them are useful and productive for a while, whereas in other contexts they may become meaningless and boring. We can think of the city metaphor, references to the (virtual) body, or, to the Internet as a safe haven for the Self and other spiritual motives. The future, according to Rorty, should not conform to a plan. Rorty's hero John Dewey formulates 'growth' as the only moral end. Pragmatists reject any teleology and hope that the future (of the Internet, for example) "will astonish and exhilarate. The vista, not the endpoint, is what matters". If we do not impose absolute values upon the directions new media might take, more realms of possibilities might reveal themselves. It is the role of theory to draw these images out, not to impose them on reality.

