Over-Reach and Inequality

(excerpted from Survival+: Structuring Prosperity for Yourself and the Nation
by Charles Hugh Smith;

Our situation can be summarized thusly:

1. All civil societies/cultures develop Elites; this is the nature of social animals. Elites are self-organizing groups which share the same self-interests, that is, a higher-order clique; they are not conspiracies or formal organizations.

2. Under certain conditions, the structural obstacles/negative feedbacks which constrain Elite dominance weaken and the Elites (private and public/State), like any other human group, seek to exploit the resulting windfall.

3. This leads the Elites to over-reach which creates positive feedback: the more wealth and influence the Elites/State control, the easier it becomes to control even more. The net result is the Elites and the State's share of the national income rises to historic extremes.

4. Regardless of the exact nature of over-reach--expansionist warfare or financial leverage and looting are two popular choices--the interests of the Elites and the society as a whole diverge. As this divergence grows, the social contract between the Elites and those whose productivity powers the economy and society begins fraying.

5. Over-reach ontologically (inherently) leads to structural imbalances which then threaten to destabilize the productive middle class which supports the Elites. Due to the overwhelming power of the Elites/State partnership's fiefdoms, structural reform is impossible (see Chapter Twenty below).

6. As the productive middle class's share of national income shrinks, a well-concealed, *opaque parallel system of dominance* with a structure of its own arises to exclusively serve the interests of the Plutocracy/State Elites (apparatchiks). The hidden mechanisms are many: backroom deals, unwritten "understandings," price-fixing and other forms of collusion; cash payments and other "gifts and donations;" political favoritism (special admission to elite public universities for the well-connected); and a cornucopia of financial benefits: access to initial public offerings, special tax laws written to reward a particular enterprise or cartel, and so on.

7. The State, which was intended as a bulwark against the natural dominance of concentrated private capital and Monarchy, has instead become the handmaiden of the rentier-financial Power Elites. The Elites and the State have thus become partners in the task of diverting ever-larger shares of the national income to their own coffers.

8. As a result, inequality--as measured by shares of the national income and wealth--widens, furthering the divergence of interests between the productive class and the Elites/States' unproductive fiefdoms and dependents.

9. The State/Elites seek to counter these growing imbalances by extracting more from the productive class via taxes and "theft by other means" and masking this rising inequality by manipulating the politics of experience via relentless mass media propaganda.

The goal is four-fold: nurture complacency and fatalism in the citizenry; divert their attention from the concealed parallel system that benefits the Plutocracy and State Elites exclusively; legitimize simulacrum democracy and delegitimize protest.

10. To keep the State dependents passive and unthreatening, the Elites/State placate this class with "bread and circuses," State-funded entitlements paid for by raising taxes on the dwindling productive class. Under the guise of entitlements, the State (and the Elites who control it) has in effect bought the passive complicity of its dependents in the Elites' growing dominance of national income and wealth.

11. Having over-promised entitlements to the unproductive and garnered the majority of national income and wealth for themselves, the Plutocracy/State Elites can only tax the productive class so much lest they kill the horse they ride so majestically. Their only alternative to loss of income and power is to debauch the currency by printing money and debauch credit by borrowing far in excess of what can possibly be paid back.

12. The debauchery of credit and currency and rising inequality/diverting of national income to the Elites continues in a process of devolution until a phase shift/tipping point is reached and the status quo collapses in insolvency.

This process is both post-Marxism (that is, occurring outside the framework of Marxist theory) and post-Neoliberal State Capitalism--in other words, these broad intellectual frameworks failed to predict or account for the coming devolution and collapse of the State/rentier- monopoly capital Power Elite partnership.

The grand experiment of the State controlling the private economy has failed.

Both the Marxist/Socialist model of government control and ownership and the Neoliberal State Capitalist model of the State controlling the economy via monetary and fiscal manipulations have failed, for in each model there is no negative feedback to State over-reach and expansion.

In the Marxist Model, there is no negative feedback to limit *extreme concentrations of power* via State control and ownership of national assets and income. As the State Elites gorge on the national wealth (windfall exploitation), the State's interests radically diverge from those of the citizenry.

In Neoliberal State Capitalism, there is no negative feedback to limit State manipulation of monetary and fiscal inputs (i.e. borrow and/or print money). In theory, the global bond market should act as a counterforce to fiscal over-reach (excessive State debt and spending), but as recent events have shown, the U.S. is effectively unhindered by market forces: the U.S. Treasury sells bonds to primary bond dealers, the Federal Reserve creates money out of thin air, and a few days after the bond auction the Fed buys the Treasury bonds from the dealers.

The circle is complete: when the State creates money to buy its own debt, it establishes a simulacrum of an "open market" which in reality is utterly opaque and manipulated by the financial Elites and State to maintain their wealth and power.

But such perfection in positive feedback (there are no restraints on the State's ability to print, borrow and spend money) leads not to stability but to instability and collapse.

Exacerbating this devolution and eventual collapse are unprecedented external pressures on increasingly vulnerable FEW resources (food, energy and water) and infrastructure: fossil fuel depletion, environmental/soil degradation, fragile supply chains, etc., all of which increase the probabilities of chronic shortages and the geopolitical conflicts which historically arise from those shortages.

At this juncture it is important to recall that any State/government is in essence a luxury that can only exist if an economy generates a substantial surplus.

No surplus, no government. Thus subsistence-level societies do not have stand-alone governments because there is not enough surplus food to feed essentially unproductive members of the society (government). Security and other community needs are provided gratis by the group itself as a form of mutual protection/benefit. The wealthy share their surplus in exchange for status ("potlatch").

As measured by fiscal and trade deficits, the U.S. economy has not produced a sustained surplus for decades.

We have consumed far more than we have produced, and borrowed the difference from nations which have generated surplus capital and goods.

The mass media/think-tank/State propaganda machine produces reams of material claiming to "prove" that this stupendous borrowing is not just sustainable but that it is in everyone's best interests.

But the "surplus" the U.S. is trading for tangible goods and capital is paper money and future promises to pay--both essentially worthless. At some point the fraud at the heart of this exchange of "value" will be revealed and the U.S. State and Elites will be reduced to depending on the actual tangible surplus generated by the U.S. economy.

This sharp reduction of available capital to spend will trigger collapse of the over-leveraged, over-indebted, credit-dependent status quo, which requires trillions of dollars in borrowed capital to support its gargantuan State and Elites.

It is also important to recall that relative inequality in national income and wealth rises and falls in long cycles, and changes are triggered by national crisis.

I previously noted that inequality was rather low in Colonial America and then rose as the U.S. industrialized. One result of the Great Depression was the decline of inequality, which enabled the post-World War II era of rising middle class wealth and income.

Thus it is entirely within historic norms to foresee a national crisis (insolvency) which results in dramatic declines of inequality--that is, the share of national income and wealth currently diverted to the Elites and State will drop precipitously. Since national income is a zero-sum game, this decline in equality means the productive classes' share of national income will rise--put another way, they will keep the income that is being transferred to the rentier/financial and State Elites in the present era of extreme inequality.

This implies the State's role as handmaiden/servant to the rentier-financial Elites will collapse along with State finances. Given the lack of negative feedback on the State's expansion and the positive feedback of printing and spending fiat money, there is no other possible end-state but collapse/insolvency.

Let's examine our era's extreme inequality in more detail.

According to a recent (July 2009) *Wall Street Journal* analysis of Social Security Administration data, the top 6% of wage earners (high-caste) take home 1/3 of the national wage/salary income ($2.1 trillion of the $6.4 trillion in total U.S. pay in 2007); when bonuses, stock options and other non-wage income is included, the percentage rises to approximately 50%. The high-caste share of national income has been rising at approximately double the rate of average workers. Over time, this differential enabled the top 6%'s share to rise from 28% of total income to 33% in just a few years. Thus inequality is rising quickly in the current status quo.

The top 1% of households own 2/3 of the productive wealth of the nation. This number is not static, of course; the gap between the top 1% and the 99% below is widening rapidly. Congressional Budget Office data show that between 1979 and 2006, the before-tax income of the top 1 percent of U.S. households increased by 226 percent, on average (after adjusting for inflation), compared to an increase of just 15 percent for families in the middle fifth of the income spectrum (the middle class).

The after-tax income of the top 1 percent of households increased by 256 percent, after adjusting for inflation, compared to an increase of 21 percent for families in the middle income quintile. The effective federal tax rate for the top 1 percent of households — i.e., the share of their *taxable income* that they owe in taxes — fell substantially, from 37 percent to 31.2 percent As a result, the share of the nation's total after-tax income going to the top 1 percent of households more than doubled, from 7.5 percent in 1979 to 16.3 percent in 2006.

While non-taxable income statistics are hard to come by, we know that the vast majority of tax-free municipal bonds are owned by the top 5% of households, and that the vast majority of Elite wealth is protected from taxes by family and estate trusts, funds and income held overseas and a multitude of other tax avoidance schemes (legal and quasi-legal) unavailable to middle class households. The vast majority of the Elite's income is unearned, that is, not wages but rents, dividends, capital gains, etc., which are either taxed at lower rates or subject to multiple deductions and other tax avoidance strategies.

Thus the top 1%'s share of total national income (nontaxable or protected from taxation as well as taxable) is more on the order of a third. (Approximately 60% of the income-generated wealth of the nation--rents protected by depreciation, dividends, interest, capital gains, tax-free bond income, non-taxable trust income, etc.-- flows to the top 1%. Thus wages/salaries/taxable income is a poor measure of total wealth and income.)

Historically, this concentration of wealth and income is an extreme for this nation. The State (all government, state, county, city, semi-autonomous public agencies, transit authorities, public universities, etc.) currently absorbs approximately 40% of the nation's GDP, also an extreme. (The Federal government absorbs about 20% of GDP.)

We should also note that the rise of entitlements/dependency has occurred in parallel with rising inequality/ever greater share of national income diverted to the State and Plutocracy; the skyrocketing cost of "pay as you go" entitlements is thus paid with borrowed money and higher taxes on the dwindling productive middle class, leaving the Plutocracy and State fiefdoms' shares of the national income intact.

None of this is of course common knowledge, for the corporate Elite owns the highly concentrated mass media, and it would not serve their interest for this sort of data to be widely disseminated in the mass media.

Given that elites form in all societies with any surplus, the notion of eradicating Elites entirely is impractical.

Clearing away old Elites (liquidating, murdering or imprisoning them on the Soviet, Chinese or Cambodian models) has merely provided opportunities for a new Elite to take the place of the old Elite.

But reducing extreme inequality by restricting the diversion of the productive classes' earnings to the Elite/State partnership is not just entirely possible but it has recent historical precedent (the rapid drop in inequality 1940 - 1970).

It is important to note that eras of relatively low inequality have generally been the most widely prosperous, stable and creative in American history.

As noted elsewhere in this analysis, the U.S. Constitution does not restrict the growth of Elites or the State, nor does it contain any mechanism to limit the concentration of their wealth, power and influence. The Elites and high-caste State elites effectively control all three branches of the U.S. government and so the "balance of powers" is ineffective in limiting the rise of inequality. It is up to the citizenry to limit rising inequality; the structure of government itself only feeds an ever-enlarging State.

Having noted this, we must also note that the U.S. Constitution does not restrict the reduction of inequality, either. The Constitution is itself neutral; if the citizenry allow the Elites and State to dominate the national income, media and the politics of experience, then the Constitution is powerless to obstruct this concentration of power.

Recall that the State and its fiefdoms have no inherent interest in limiting its own reach, income and influence; rather, the State is ontologically constructed to seek a greater share of national income and ever greater influence and control--just like the private-sector Elites which partner with the State.

Put another way: there is no negative feedback to restrict the growth of the State except an engaged, skeptical citizenry who demand and enforces transparency and accountability. This will require new negative feedback loops and strengthening existing regulatory feedbacks that have been reduced to simulacra.

Thus no revolution is necessary; indeed, nothing illegal is required, either. Opting out is perfectly legal, as is constructing an alternative transparent, fully accountable economy and society which will prosper even as the financial Elites and the State collapse in insolvency.