

## ***2020 : A Second American Revolution ?***

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Rising inequality may lead to years of political turmoil in America peaking in the 2020s, according to U.S. Professor Peter Turchin of the University of Connecticut. Writing on *Bloomberg* this week, following on from his February 2012 article in *Aeon* magazine, “*Return of the Oppressed*,” Turchin, author of “*War and Peace and War: The Rise and Fall of Empires*” and avid political blogger (*Social Evolution Forum*), places the blame on “elite overproduction.”

Supporters of free markets and liberty will find Turchin’s analysis frightening reading. In an article in *Nature* in February 2010, he first highlighted the theory that complex human societies are affected by recurrent, predictable waves of political instability. The U.S. has stagnating or declining real wages, a growing gap between rich and poor, exploding public debt and overproduction of young graduates with advanced degrees. Turchin has identified 50-year instability spikes around 1870, 1920 and 1970, thus suggesting somewhere round 2020 as the next one. We’re all familiar with the increasingly unrepayable burden of student loans on young American graduates, and it was startling to read in *The Financial Times* this week that starting salaries of U.K. graduates are still 12% less than pre-GFC, and that they owe 60% more in student debt. Perhaps this cycle is not limited to America.

Turchin notes the growing gap between the top 1% and the rest of society. In 1995 dollars, the number of US\$10 million households has grown from 66,000 to 350,000 from 1983 to 2010 and that top 1% is now more like a top 2% as the numbers of mega wealthy have boomed. His *Aeon* magazine article reports that the top 1% of fortunes holds two fifths of U.S. wealth and that the six heirs of James and Sam Walton (WalMart) are richer (\$115b.) than all of the bottom 40% of the U.S. population. For those of us who believe in free markets, this seems more like reason to rejoice at the success of entrepreneurs. But the side effect of this proportional growth in multimillionaires is that rich Americans tend to be highly politically active while the available political offices (Congressmen, Senators, judges etc) haven’t really changed over the same period. Meanwhile the number of lawyers has doubled (MBAs are even more over-produced), resulting in increasing numbers of indebted would-be office holders who are desperate for advancement politically. He says history suggests that when you end up with a “large class of disgruntled elite-wannabes, often well-educated and highly capable, ... denied access to elite positions” you get big trouble. Turchin uses the 1850s as an example where intra-elite competition led to polarization as rising northerners (with proliferating millionaire equivalents in today’s money) fought to dislodge entrenched Southern elites who dominated U.S. politics at the time. This may have led to the U.S. Civil War.

American politics today stand at a crossroads. Cosy relations between Republicans and Democrats are long gone. The Republicans are splintering amidst the rise of the Tea Party. The polarization, illustrated this past week by the Democrats changing the voting rules in the U.S. Senate on nominations, seems similar to the 1850s. Not that this must end in war. The instability of the early 1900s at the twilight of the Gilded Age, was anticipated by progressive politicians (Teddy Roosevelt), immigration was shut down by Congress in 1924 stabilizing lower skilled wages and FDR’s New Deal sealed a peaceful resolution in the 1930s. However, it was a close run thing. The “Red Summer” of 1919 saw 26 major riots with 1,000 casualties and 10,000 armed striking miners fought gun battles with police in 1920 at the Battle of Blair Mountain in West Virginia. As Joe Kennedy, father of JFK said, he was happy to gamble half his fortune

on FDR's New Deal, "if that meant he could keep the other half." These "progressive" policies may well have headed off another deadly civil conflict. In any case, perhaps as a result, inequality of incomes and wealth fell from the 1930s until the early 1980s, a period where the top fortunes hardly grew but the wealth of a typical family increased by a multiple of 40. That period is referred to as the "Great Compression." In many countries, including Australia, labor's share of GDP peaked (at the expense of corporate profits) in the mid-1970s and has fallen ever since, along with falling rates of unionization coupled with higher immigration and today we have a U.S. corporate profit share, still, after the GFC, at an all-time high, which Forbes magazine puts down to globalization. From 1980, we have lived through the "Great Divergence" but as "the ranks of the wealthy swell, so too do the numbers of wealthy aspirants for the finite supply of political positions. *And then you get trouble*". But is there anything new? As Turchin says : "the US political system has been under the influence of wealthy elites ever since the American Revolution. In some historical periods it worked primarily for the benefit of the wealthy. In others, it pursued policies that benefited the society as a whole. History provides another clue. Unequal societies generally turn a corner once they have passed through a long spell of political instability. Governing elites tire of incessant violence and disorder. They realize that they need to suppress their internal rivalries, and switch to a more co-operative way of governing, if they are to have any hope of preserving the social order."

He says "the fall of the Soviet Union was interpreted as a vindication of free markets, period. The triumphalist, heady atmosphere of the 1990s was highly conducive to the spread of Ayn Randism and other individualist ideologies," Turchin writes. "The unwritten social contract that had emerged during the New Deal and braved the challenges of the Second World War had faded from memory."

Turchin believes the way to dodge the bullet in 2020 – and it may well be a literal bullet if history is any guide – is to *reverse* "the trend of ever-growing inequality." He's probably right. He also would limit the production of educated elites to what the economy can absorb. This is actually what Switzerland does, with ruthless culling in the final years of secondary school and again in the early years of university. Turchin wants, predictably, to reduce inequality with the usual mix of even more progressive taxation and transfer/entitlement payments. Oh no, .....a bigger State, the ever-smothering Nanny State .....again ! Admirers of Hayek and Friedman will feel as if they fought desperately during the Keynesian post-war years to keep alive the torch of liberty, emerged victorious to enjoy stunning global growth once Thatcher and Reagan took power, but now seem about to lose the new war to same old foe.

However, if we look at the period from the New Deal until now, ask, who, in America today, are the elites ? It's not the Tea Party, they're the disenchanted, dispossessed, disenfranchised middle class from the South, Texas and the Mid-West. The elites today, dominating the Democrats plus the country club wing of the Republicans and holding all those political offices, dominating big government and the organs of its entitlement society, are the "*liberal*" elites, in the sense that Americans use the word "*liberal*." It is obvious that Wall Street, Hollywood and the avant-garde Bay Area tech crowd are not supporters of the Tea Party, they're financiers of the "liberal" elite. This "liberal" elite is banking on the fact that Blasio's win in the New York mayor race, along with disarray in Republican ranks, signals, according to New York informants, the likely election of the senior senator from Massachusetts, Elizabeth Warren, as the next President in 2016. There is much to admire about Madam Warren. But she is a

*“liberal”*, and that means a U.S. plodding down the well trodden path of even higher taxes and even bigger government.

No doubt there *is* something wrong in a U.S tax system, where, as Warren Buffet says, he pays a lower tax rate than his secretary Debbie Bosanek; actually, less than half the rate that Debbie does. Warren doesn't believe that makes much sense either.

The message from Turchin suggests that rising civil violence and disorder might be inevitable without a change in the trend of rising inequality, but the entrenched *“liberal”* elites seem to be in the very same position as the Southern elites of 1850. The increasing polarization in the U.S. reduces the chances of any new national political compromise but the U.S. doesn't need another New Deal style injection of progressive politics either. In order to avoid that, perhaps the Tea Party must realize a few things, and realize them fast. Because time is not on their side. The *“liberal”* elites are much better organized and supported and, for now, they have the numbers.

Firstly, if a tsunami of immigration and globalization is burying your lesser skilled and unskilled workers in impoverished lives marked by falling or stagnant real incomes, then you better do something now or buy a gun. Because those folks are losing faith in the American dream. Secondly, if Romney couldn't win with a broader Republican consensus than the Tea Party now represents, it was because, despite winning an overwhelmingly majority of white votes, he failed miserably when it came to Hispanics, African-Americans and even upwardly mobile Asian-Americans. Thirdly, something is just so wrong with the U.S. tax code. Corporate income tax as a percentage of GDP is barely a fifth of what it was in the mid-1950s. General Electric's average tax rate was 1.8% between 2002 and 2011 according to Citizens for Tax Justice. And as for corporate lobbyists in Washington DC distorting taxes; enough said.

If it doesn't want free markets strangled, then the Tea Party needs to wake up and smell the coffee. Maybe, the Tea Party needs to throw a life line to the drowning lower classes and turn off the immigration tap like the Republican Congress did in 1924. Maybe, the Tea Party needs to reach out to minorities and emphasize that the social and moral values of the American *“liberal”* elite border on the weird, while gospel-loving African-Americans, catholic Hispanics and solidly family-oriented Asian-Americans share the same values as the socially conservative Tea Partiers of the Mid-West, Texas and the South. The Tea Party can only succeed by being inclusive. Since the rule of law, the justice system, the military and the police all protect the fabulous wealth of the top 2% and the multinationals, maybe it's time to collect some taxes in a simpler, more effective way while eliminating income taxes for the bottom 60% and small businessmen. Example : perhaps big business gets benefits that small business doesn't and the tax code needs to recognize that. Since when did your local bakery retain a lobbyist in Washington ?

A successful leader of the Tea Party might resemble an earlier president, a returned war hero who was a populist who increased the level of democracy, expanding voting rights beyond merely property owners and who even invited the public to his inauguration. But he also paid off the national debt (the only time in U.S. history), was devoted to laissez faire economics, favored states' rights over centralist big government, and shut down the predecessor of the Federal Reserve saying it only served to make the rich richer, something the Fed's Quantitative Easing program has been proven to do since 2009. Sound interesting ?

The returned war hero was Andrew Jackson, president from 1829-1837. The Tea Party better find someone like him lightning fast. Indeed, only a war hero could cut back the military industrial complex and save the U.S. taxpayer a fortune. And if ever there was something dragging down the U.S. economy, fighting endless, pointless wars seems high up on that list.