Date: Sat, 20 Nov 2010 15:14:26 -0500
To: "Dr. Baruch Fischhoff - Chair, National Academy Committee on Improving Intelligence" <baruch@cmu.edu>, "Dr. Richard Atkinson" <rcatkinson@ucsd.edu>, "Dr. Kenneth Prewitt" <kp2058@columbia.edu>, "Dr. Jonathan Cole - CASBS" <jrc5@columbia.edu>
From: Lloyd Etheredge <lloyd.etheredge@policyscience.net>

Subject: 183. Update: New data re asymmetrical wealth. Implications for global forecasting & economic models; Fwd: Kristof on Banana Republic models

Dear Dr. Fischhoff and colleagues:

In several messages during the past year I outlined a scientific pathway by which the DNI could revolutionize and upgrade national macroeconomic and international economic models.<1>

For example: New modules of predator-prey financial systems, using the simple Lotka-Volterra eco-system equations (and, then, game-theoretic predictions of how smarter and adaptive opponents can beat the best current strategies of most governments and perhaps the US as well), are likely to improve our ability to understand what is going on, and the early warning capabilities that the DNI and the CIA have been tasked to develop. We need models that recognize the impact of new and unexpected asymmetries of money and brainpower. And that allow for change as new Frankenstein's Monsters (in Paul Samuelson's term) become more self-aware.

Updating Images: The US as a Banana Republic?

Overcoming the inertia of academic modeling, and promoting a new and competing paradigm, based solely upon one unexpected global crisis, may still be challenging. Thus, to expand the case based on the N=1 global crisis, I am attaching a recent Op Ed piece by Nicholas Kristof (("A Hedge Fund Republic," NY Times, 11/17/2010) showing that the distributions of income and wealth in the US have changed. [See also Hacker and Pierson, Winner-Take-All Politics:

How Washington Made the Rich Richer . . . (Simon and Schuster, 2010)]

The asymmetries and inequalities suggest that we think of the US economy and political system as we used to think of the oligarchy/plutocracy politics of Banana Republics in Central America.

There are obvious caveats (and many unanswered research questions) about political/economic implications of these trends. <2> However they support my earlier suggestions for competing, rapid discovery science.

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November 17, 2010. NYTimes

A Hedge Fund Republic?

By NICHOLAS D. KRISTOF

Earlier this month, I offended a number of readers with a column suggesting that if you want to see rapacious income inequality, you no longer need to visit a banana republic. You can just look around.

My point was that the wealthiest plutocrats now actually control a greater share of the pie in the United States than in historically unstable countries like Nicaragua, Venezuela and Guyana. But readers protested that this was glib and unfair, and after reviewing the evidence I regretfully confess that they have a point.

That's right: I may have wronged the banana republics.

You see, some Latin Americans were indignant at what they saw as an invidious and hurtful comparison. The truth is that Latin America has matured and become more equal in recent decades, even as the distribution in the United States has become steadily more unequal.

The best data series I could find is for Argentina. In the 1940s, the top 1 percent there controlled more than 20 percent of incomes. That was roughly double the share at that time in the United States.

Since then, we've reversed places. The share controlled by the top 1 percent in Argentina has fallen to a bit more than 15 percent. Meanwhile, inequality in the United States has soared to levels comparable to those in Argentina six decades ago n with 1 percent controlling 24 percent of American income in 2007.

At a time of such stunning inequality, should Congress put priority on spending $700 billion on extending the Bush tax cuts to those with incomes above $250,000 a year? Or should it extend unemployment benefits for Americans who otherwise will lose them beginning next month?

One way to examine that decision is to put aside all ethical considerations and simply look at where tax dollars will do more to stimulate the economy. There the conclusion is clear: You get much more bang for the buck putting money in the hands of unemployed people because they will promptly spend it.

In contrast, tax cuts for the wealthy are partly saved n that's both basic economic theory and recent history n so they are much less effective in creating jobs. For example, Republicans would give the richest 0.1 percent of Americans an average tax cut of $370,000. Does anybody really think that those taxpayers are going to rush out and buy Porsches and yachts, start new businesses, and hire more groundskeepers and chauffeurs?

In contrast, a study commissioned by the Labor Department during the Bush administration makes clear the job-creation power of unemployment benefits because that money is immediately spent. The study suggested that the current recession would have been 18 percent worse without unemployment insurance and that this spending preserved 1.6 million jobs in each quarter.

But there is also a larger question: What kind of a country do we aspire to be? Would we really want to be the kind of plutocracy where the richest 1 percent possesses more net worth than the bottom 90 percent?

Oops! That's already us. The top 1 percent of Americans owns 34 percent of America's private net worth, according to figures compiled by the Economic Policy Institute in Washington. The bottom 90 percent owns just 29 percent.

That also means that the top 10 percent controls more than 70 percent of Americans' total net worth.

Emmanuel Saez, an economist at the University of California at Berkeley who is one of the world's leading experts on inequality, notes that for most of American history, income distribution was significantly more equal than today. And other capitalist countries do not suffer disparities as great as ours.

"There has been an increase in inequality in most industrialized countries, but not as extreme as in the U.S.," Professor Saez said.

One of America's greatest features has been its economic mobility, in contrast to Europe's class system. This mobility may explain why many working-class Americans oppose inheritance taxes and high marginal tax rates. But researchers find that today this rags-to-riches intergenerational mobility is no more common in America than in Europe n and possibly less common.

I'm appalled by our growing wealth gaps because in my travels I see what happens in dysfunctional countries where the rich just don't care about those below the decks. The result is nations without a social fabric or sense of national unity. Huge concentrations of wealth corrode the soul of any nation.

And then I see members of Congress in my own country who argue that it would be financially reckless to extend unemployment benefits during a terrible recession, yet they insist on granting $370,000 tax breaks to the richest Americans. I don't know if that makes us a banana republic or a hedge fund republic, but it's not healthy in any republic.

Notes

<1> Archived at www.policyscience.net at II. D

<2> Re these caveats:

1.) Reality is probably the complex interaction of several logically incommensurable models each with non-zero partial derivatives (and changing/adaptational dynamics) in an accelerating world There is no revolutionary claim for the hegemonic overthrow of earlier paradigms. Adding models may be all that is required.

2.) There is no claim that the people at the top of the wealth and income distribution are especially interested to bother about most political issues. However, when wealth is organized through hedge fund managers or other purposive institutions, they may be very effective at using campaign contributions to block changes or neutralize governments on issues they care about.

3.) Wealth does not necessarily imply a wider range of control or power. As even Bill Gates has found, extraordinary wealth even in the hands of one person who wants to change the world, may encounter frustrations.

4.) There are diverse and competing interests within these elites. While some super-wealthy individuals might support the Tea Party movement and candidacies, and "dumb down" the US Congress and news media, other movers-and-shakers may be meeting in Davos and be shaping a well- and professionally-managed global system. [The Davos system may gain its international-ist/managerial power precisely because of growing global inequalities and concentrations of enough wealth to empower such a system. The interests of the super-rich may be to "hire" (elect) capable CEO's (Presidents) of national government and to make a global economy function well, without the disruptions of war.

Dr. Lloyd S. Etheredge - Fellow, World Academy of Art & Science
Policy Sciences Center Inc.
URL: www.policyscience.net
301-365-5241 (v); lloyd.etheredge@policyscience.net
lloyd.etheredge@aya.yale.edu (email)

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