



Epsilon Theory

Notes From the Field

Pecking Order

November 30, 2017



Out of all the animals we keep on our “farm”, chickens are the only ones that bring me no joy. Chickens are, by nature, brutal and cruel. They will torture the weak to death with their pecks, not because they have to, but because they can. It’s the way their brains are hard-wired, and it works for them, as a species. So I pretend that chickens aren’t evil and I’m not complicit. Because I really like the eggs.

We are trained and told that the pecking order is not a real and brutal thing in the human species. This is a lie. It is an intentional lie, one that we pretend isn’t evil and where we are not complicit.

Because we really like the eggs.

And that’s the news from Lake Wobegon, where all the women are strong, all the men are good-looking, and all the children are above average.

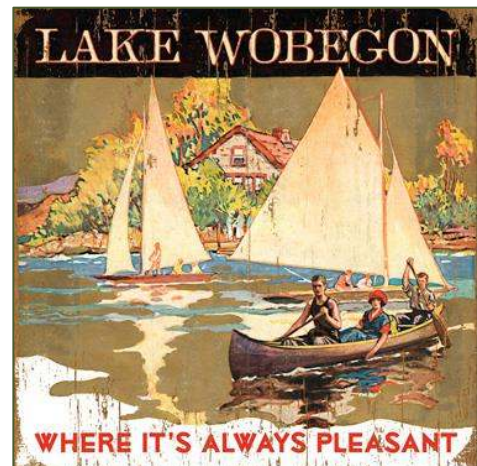
— Garrison Keillor

We can’t all be rich.

We can’t all be famous.

We can’t all be Someone Who Matters to the World.

[Team Elite Narrator: OR CAN WE?]



Blake: Put. That coffee. Down. Coffee's for closers only. You think I'm f**king with you? I am not f**king with you. I'm here from downtown. I'm here from Mitch and Murray. And I'm here on a mission of mercy. Your name's Levine? You call yourself a salesman, you son of a bitch?

Moss: I don't gotta sit here and listen to this s**t.

Blake: You certainly don't, pal, 'cause the good news is — you're fired. The bad news is — you've got, all of you've got just one week to regain your jobs starting with tonight. Starting with tonight's sit. Oh? Have I got your attention now? Good. 'Cause we're adding a little something to this month's sales contest. As you all know, first prize is a Cadillac Eldorado. Anyone wanna see second prize? Second prize is a set of steak knives. Third prize is you're fired. Get the picture? You laughing now? You got leads. Mitch and Murray paid good money for their names. You can't close the leads you're given, you can't close s**t. You ARE s**t! Hit the bricks, pal, and beat it 'cause you are going OUT!



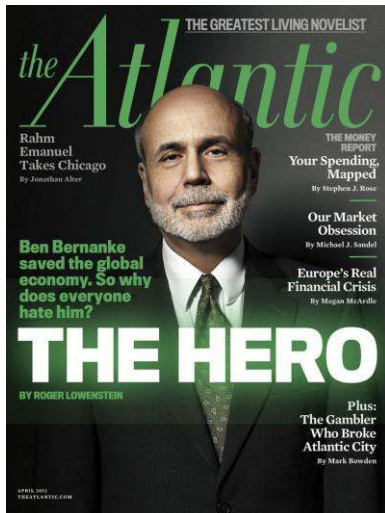
— *Glengarry Glen Ross* (1992)

The truth is that unless you are really rich, you work for Mitch & Murray. Yes, that includes you, Vox writer changing the world one smarter-than-thou opinion at a time. Yes, that includes you, tech start-up developer kicking back in your flair-bedecked WeWork cubicle.

We don't feel the crushing power of the Mitch & Murray pecking order as palpably as the salesmen berated by Alec Baldwin feel it, because the language of David Mamet has been replaced by the language of Dick Thaler and Cass Sunstein. [The modern Mitch & Murrays don't browbeat us. They nudge us.](#) They convince us that a set of steak knives is a darn good outcome, that it's a promise kept rather than a threat delivered. Coffee's not just for closers. No, no ... coffee is for EVERYONE. In fact, let's put some caffeine into everything you drink. Something nice and caffeinated to wash down that big slice of office birthday cake.

Most importantly, today's Mitch & Murray writ large — the *system* of Mitch & Murrays — provides credit to the non-rich, essentially limitless credit for anything that's intangible or depreciates quickly, anything that lets the non-rich FEEL rich. How about a nice dinner out? New smartphone? You deserve it! How about a couple of years of graduate school? More than a couple of years, shooting for a tenure track position? [Heh, heh] I mean ... why certainly, even better!

Go on, try the eggs. They're delicious.



And higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending. Increased spending will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion.

— Ben Bernanke (2010)

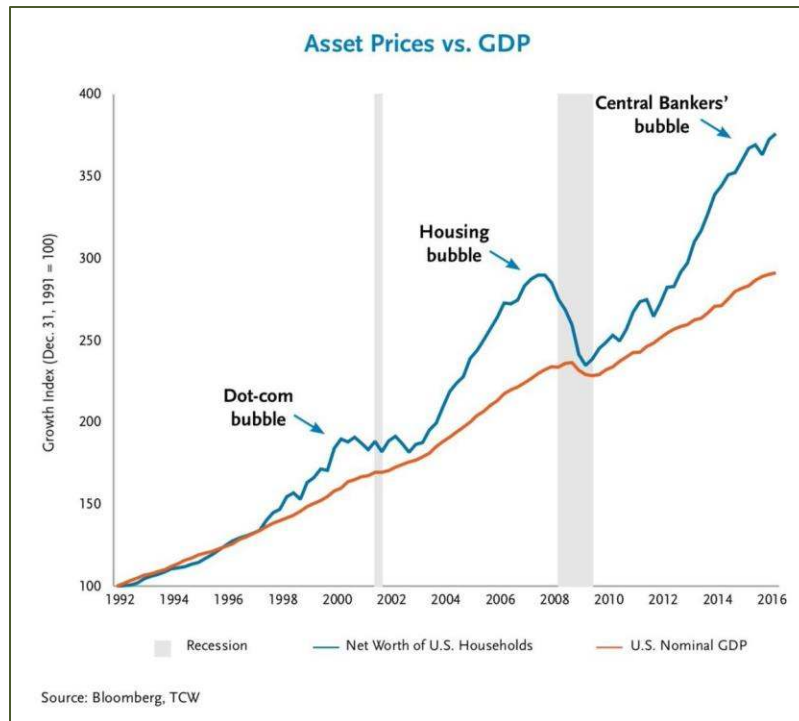
Step One in the Pecking Order Lie is to promote a narrative of trickle-down economics — that making the rich even richer is a good thing for the non-rich.

This is exactly what Ben Bernanke is saying here, that the Fed’s extraordinary efforts to prop up the stock market aren’t just good for the rich, but will be good for everyone once the “wealth effect” kicks in and the rich start spending their money.

Whenever someone uses the phrase “wealth effect”, they are promoting a trickle-down narrative.

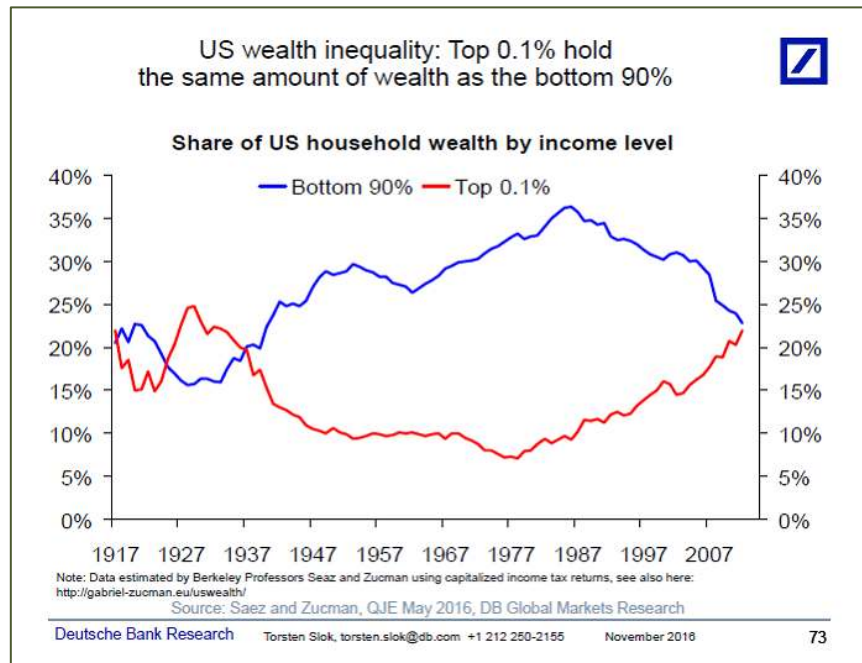
How does trickle-down monetary policy work? By spending TRILLIONS of dollars to buy financial assets, the world’s central banks have inflated the prices of ALL financial assets, EVERYWHERE in the world.

This is not a secret plan. This is not a hidden agenda. This is the avowed purpose of what central bankers call Large Scale Asset Purchases (LSAPs). The goal is to force us to “reach for yield”. The goal is to force us to buy more and more risky assets (stocks) at higher and higher prices. The Fed is *trying* to make the stock market go up. And they’re succeeding.



Here’s a great chart from TCW showing how this works. The orange line is the growth rate of the US economy. The blue line is the growth rate of how rich we are. *By tripling* the stock market, the Fed has made us much richer than our economy has grown ... SOOO much richer than our economy has grown.

But the goodies of a trebled stock market aren't evenly distributed. Who owns stocks? If we're talking about households, leaving aside pension funds and endowments and other institutional investors, it's the rich, mostly. And that household share of the Central Bankers' Bubble doesn't increase linearly with wealth, but exponentially, meaning that the really rich own a lot more stocks than the merely rich, so the really rich have gotten a lot richer than the merely rich.



Here's a chart from Deutsche Bank showing the impact (it's a year old, so the effect is even more pronounced today with the stock market 20% higher). Thirty years ago, the non-rich (the bottom 90% of American households by income) owned 35% of American household wealth. Today they own about 22%. Forty years ago, the really rich (the top 1/10th of 1% of American households by income) owned about 7% of American household wealth. Today they, too, own about 22%. Moreover, the gains of the really rich have mirrored the losses of the non-rich, which means that the well-off and merely rich (the remaining 9.9% of American households) haven't seen much of a change one way or another.

Now this shift in relative wealth of the non-rich and the really rich didn't start with the Central Bankers' Bubble and its narrative of trickle-down wealth effects from monetary policy. It started roughly in 1980 with the Reagan narrative of trickle-down wealth effects from fiscal policy. And before we make overly facile comparisons with the 1920s and 1930s, this chart isn't taking into account pensions and social security and other safety net features of the modern semi-sorta-welfare state. So I don't know how historically abnormal today's level of significant wealth inequality might be, whether it's Louis XVI level inequality or simply robber baron level inequality.

But I know that it IS.

I know that inequality is growing. I know that the pecking order has been getting stronger for a couple of decades now, and that it's been driven by the Central Bankers' Bubble over the past decade. I suspect that this is probably a good thing for global egg production. I also suspect that this is a bad thing if you care about liberty and justice for all.

The narrative around trickle-down fiscal policy has become highly politicized, as the good Democrat soldiers at the usual Team Elite bastions never tire of telling us how those Republican tax policies will increase wealth inequality. And they're right.

But these same tireless foes of trickle-down fiscal policy trip over themselves praising and promoting the narrative of trickle-down monetary policy under Bernanke and Yellen, which has been FAR more effective at delivering windfall gains to the really rich than Ronald Reagan or Paul Ryan could ever dream of achieving through tax "reform".

Lenin called communist sympathizers in the West "useful idiots". [The Nudging State and the Nudging Oligarchy](#) have their own willing crew of stooges, drawn primarily from children of privilege (well off or merely rich, not really rich) who want to "make a difference", who want to be Someone Who Matters to the World.

[Team Elite Narrator: But you DESERVE to be Someone Who Matters to the World, my young friend. You're good enough, you're smart enough, and doggone it, people like you. Why, here as a WaPo staffer you'll be making the world a ~~more succulent~~ host for Jeff Bezos better place for all!]

The picture on the left is Jeff Bezos, age 40, worth a billion dollars or so. The picture on the right is Jeff Bezos, age 52, worth 100 billion dollars or so. HGH looks good on you, Jeff.

I think that at some point in the next decade, it's inevitable that oligarchs like Bezos will gain access to life extension technologies unavailable to ordinary mortals. At that point, the pecking order will take on an entirely new dimension. At that point, we have a war. Which the non-rich will lose.

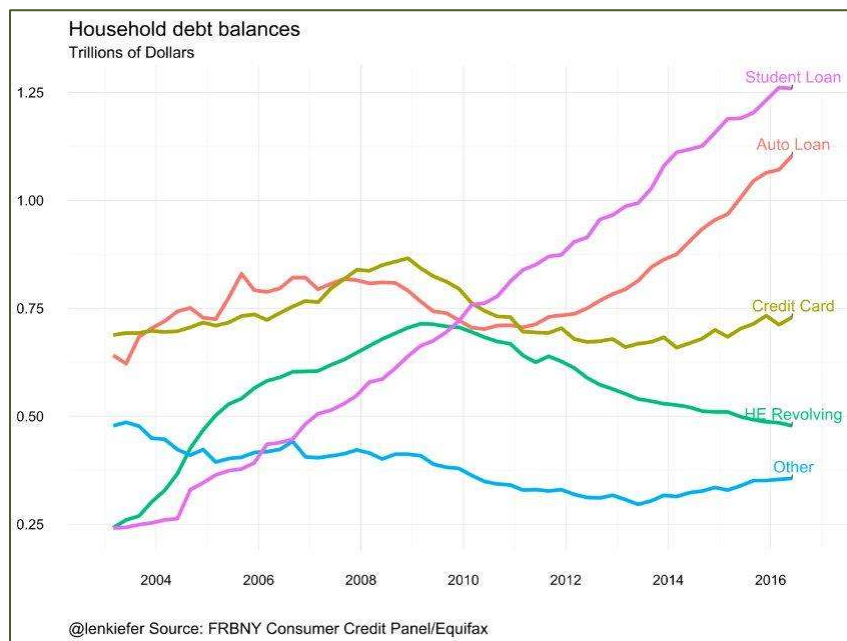




You'll be pleased to know that Janet Yellen, with a reported net worth of about \$15 million, is "greatly concerned" about growing inequality, but regrets that the Fed has no purview on this terrible problem. Perhaps Congress should do something, she suggests, like "making college more affordable" — by which she means extending even more debt financing — or "supporting early childhood education" — by which she means publicly funded daycare so that both parents can work in support of the Nudging State and the Nudging Oligarchy.

This is Step Two of the Pecking Order Lie — the provision of massive debt financing to the non-rich, preferably for non-appreciating experiences like going to college or quickly depreciating things like cars and smartphones.

Why? So that the non-rich will FEEL RICH even as they BECOME POORER.



Student debt (and every other form of consumer debt) is the functional equivalent of an office birthday cake. Debt provision *and a pleasant narrative to go with it* is a highly cost-effective behavioral tool for maintaining worker morale in the face of objectively deteriorating labor conditions.

Milton: The ratio of people to cake is too big!
— *Office Space* (1999)

Unless, like Milton, you don't get your slice of cake. Then you burn the office down. Or vote for Trump. Same thing.





It is a sin to believe evil of others, but it is seldom a mistake.
— Garrison Keillor

The pecking order is real. It is beautifully masked in modern human society, but no less brutal and no less cruel than in the chicken coop.

How do you escape the pecking order? How do you quit Mitch & Murray? Well, you can make a lot of money. That's the tried and true method. Enough money to build a walled garden around you and yours, expanding it as you can to take in others. F-you money. Somewhere between merely rich and really rich should do the trick, depending on how many generations you want to protect within those walls. Unfortunately, that's a big gulf these days, that distance between merely rich and really rich, and it's getting wider every day.

But there's another way.

No matter how much money we have or don't have, we can reject the idea that we can be Someone Who Matters to the World and instead embrace the idea that we must be Someone Who Matters to the Pack. Now maybe your pack IS the world. Probably not, but maybe. If it is, then be bold and matter to the world. But more likely it's your family. More likely it's your friends. More likely it's your partners and employees. More likely it's your church. More likely it's your school. More likely it's your country. It's damn sure not your political party. It's damn sure not an oligarch.



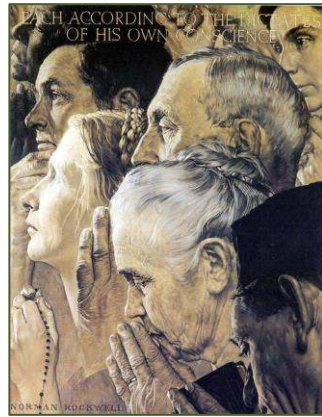
Why should we reject this notion of being Someone Who Matters to the World? Because that's the shiny lure that the Nudging State and the Nudging Oligarchy dangle in front of bright young things. And bright not-so-young people, too. The shiny lure of *mattering* is how they set the hook — which is debt — and that's how they reel you in. Because once you've got that hook in your mouth ... once you're up to your eyeballs in debt ... it's soooo hard to ever get free. I know of which I speak. So do a lot of people reading this note, I bet.

The simple truth is that we can't escape the pecking order. We can't escape economic inequality and the hard-wired impulses to brutality and cruelty used to support inequality. Not for long, anyway. Walled gardens never last.

But we can do better. We can reject the lies used to justify inequality even as we accept the reality of inequality. We can be IN the pecking order world without being OF the pecking order world.

There is an autonomy inherent in rejecting the lure of the Nudging State and the Nudging Oligarchy, an autonomy that can power a life well lived. It doesn't mean rejecting the world as it is. It doesn't mean leaving the grid for Alaska homesteading. No, that's a prison of quite another sort. It doesn't mean mattering to nothing. *It means mattering to other humans who see YOU as an autonomous end-in-itself and not as a means to an end. THAT'S your pack. Make a difference for THEM.*

In January 1941, eleven months before Pearl Harbor brought the United States into World War II, Franklin Roosevelt gave his Four Freedoms speech — Freedom of Speech, Freedom of Worship, Freedom from Want, Freedom from Fear — memorialized over the next few years by Norman Rockwell in these famous paintings.



What is autonomy? It's freedom.

What freedoms? These.

If you get nothing else from *Epsilon Theory*, get this: *these freedoms are not granted to us by the State or the Oligarchs. They are not theirs to give. They are not rewards for good behavior or allocations from a central pot. They are ours. They have always been ours. They cannot be taken away.*

*But we can give them away. We can sell our birthright for a mess of pottage in the form of student debt and a tasty slice of office birthday cake. We can allow ourselves to be beguiled by the glamour of **matter**ing for a Mighty Cause, **giving away our allegiance to those who would use us as fodder or feed.** We can embrace the pecking order lie and exchange our True Freedoms for Hollow Freedoms, for a freedom of socially acceptable speech and a freedom of socially acceptable worship and a freedom from socially manufactured wants and a freedom from socially manufactured fears.*

We can't escape from a world dominated by the Hollow Freedoms any more than we can escape from a market dominated by Hollow Liquidity and Hollow Volatility. But in markets and in politics we can call things by their proper names. We can maintain our autonomy of mind. We can find our pack and matter to *them*. We can recognize that a politics without shame is a politics without honor, just as a market without risk is a market without reward. We can take a loss in the short term, knowing that we're playing the long game. We can do this handshake by handshake, investment by investment, candidate by candidate, good deed by good deed.

And watch how our world starts to change. Watch how we Make America *Good Again*.

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