The political economy of bubbles

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Abstract
Over the past thirty years in the US and the UK there have been large upward redistributions of income from the bottom 90 per cent to the top 1 per cent and especially to the top .1 per cent. These redistributions are specific to these economies rather than a general phenomenon of advanced economies. This paper argues that these redistributions have taken place because of fundamental changes, albeit informal, in the political structures of the US and the UK. Drawing on Citigroup reports and charting the interplay between Goldman Sachs and the Obama administration, the paper argues that these changes have been realised through organized, systematic, conceptualized and financially motivated subversions of the democratic process. Strategies for effecting and preserving these changes are examined. Some of the changes in law and government policy which were enabled by the new political structure and which in turn enabled the creation of the most recent financial bubble are listed. The paper concludes that it is in the interests of the new political order, secretly called "plutonomy" by its insiders, to have more financial bubbles in the future.

With courageous but inconsequential exceptions – Galbraith senior comes especially to mind – explicit political economy has for generations been essentially dormant, either the slave of historically eroded categories or a cover for ideological exercises. Recently Hudson, Keen, Baker, Wray, Kadri, Hillinger and others have struggled to awaken minds to political determinants which in our time often shape economies more profoundly than the idealized and purely economic ones traditionally portrayed in the classroom. In the spirit of their undertakings, briefly I am going to consider three hypotheses.

1. In recent decades there has been a significant change in the political structures of both the United States and the United Kingdom.
2. Recent occurrences of financial bubbles are causally related to these changes in the political structures of the United States and the United Kingdom.
3. Without a reversal of the changes in the political structures of the US and the UK, the cycle of financial bubbles and the crises that follow their collapse are likely to continue.

1. Upward redistributions

Over the past thirty years in both the US and the UK there have been large upward redistributions of income in which the beneficiaries have comprised a tiny per cent of the population and the losers the overwhelming majority, roughly ninety per cent. This pattern has not generally characterized other advanced economies. The following set of six graphs illustrates these facts.

[1] Thanks to Jamie Morgan for suggestions. The usual disclaimers pertain.

Exhibit 1: Average incomes including capital gains in United States 1950-2008

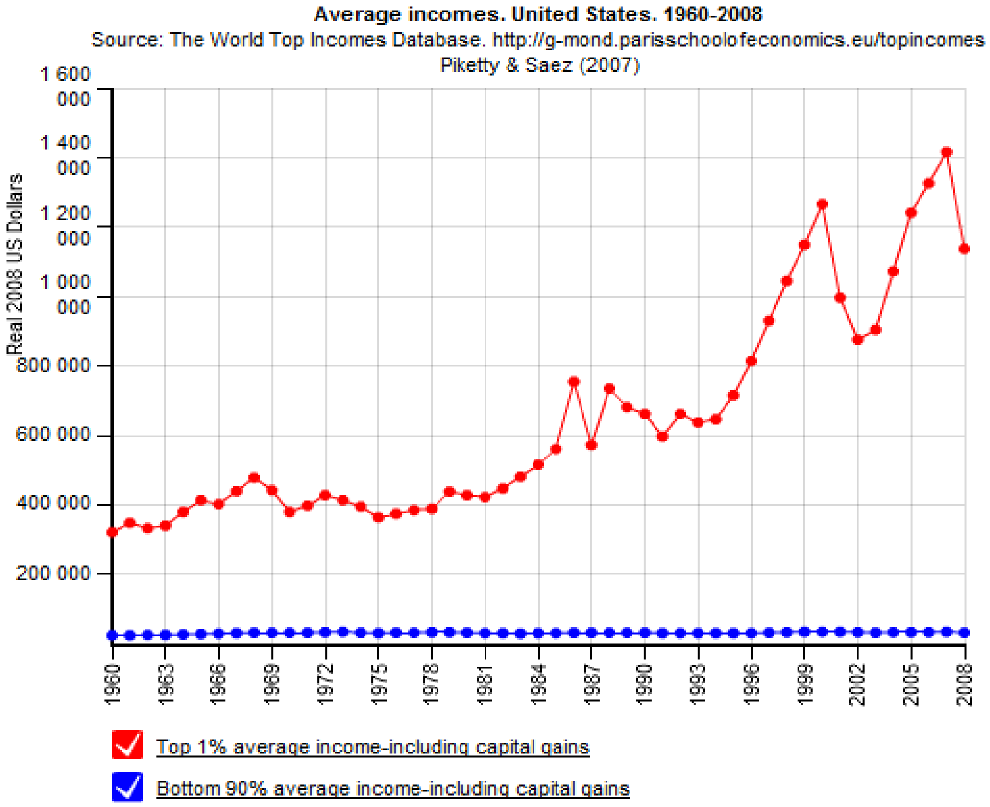


Exhibit 2: Average incomes excluding capital gains in United States 1950-2008

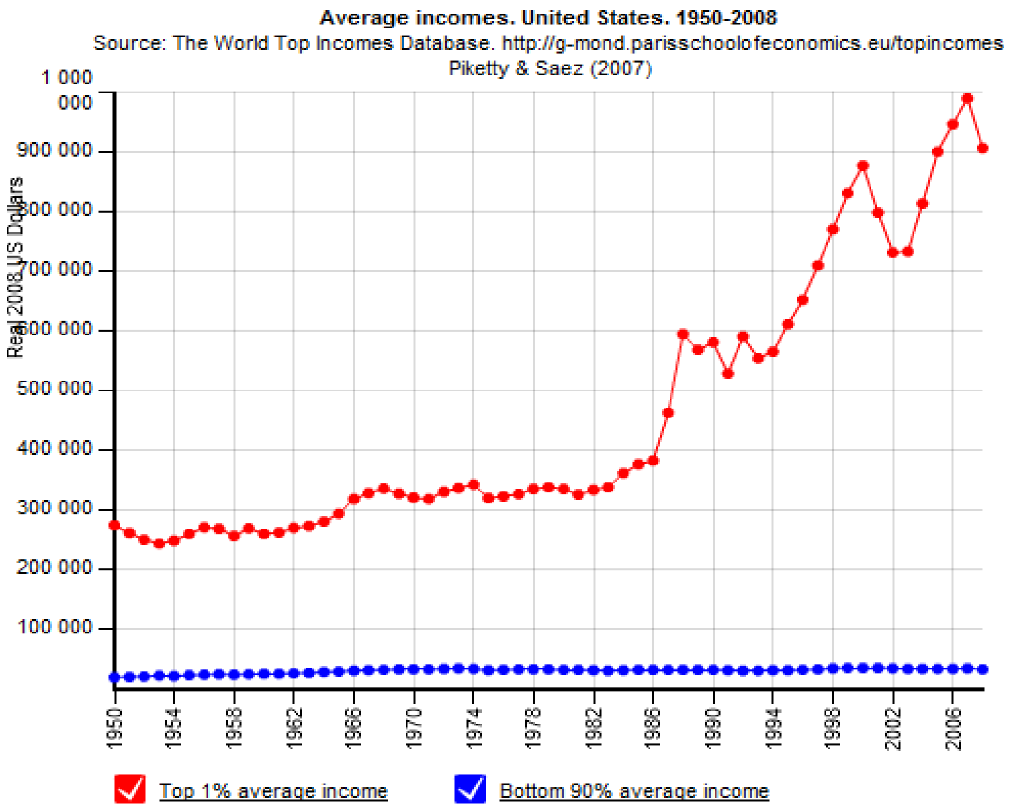


Exhibit 3: Top income shares in the United States 1960-2008

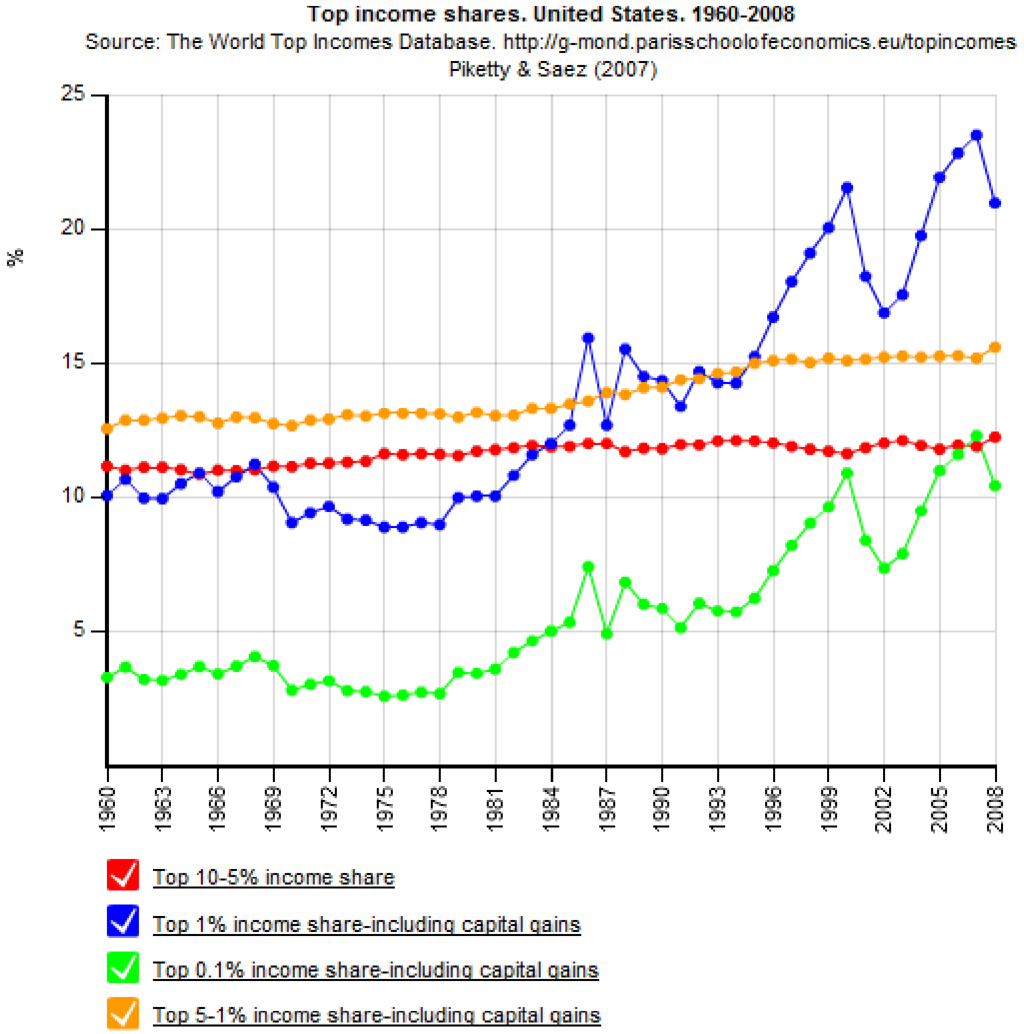


Exhibit 4: Top income shares in the United Kingdom 1960-2010

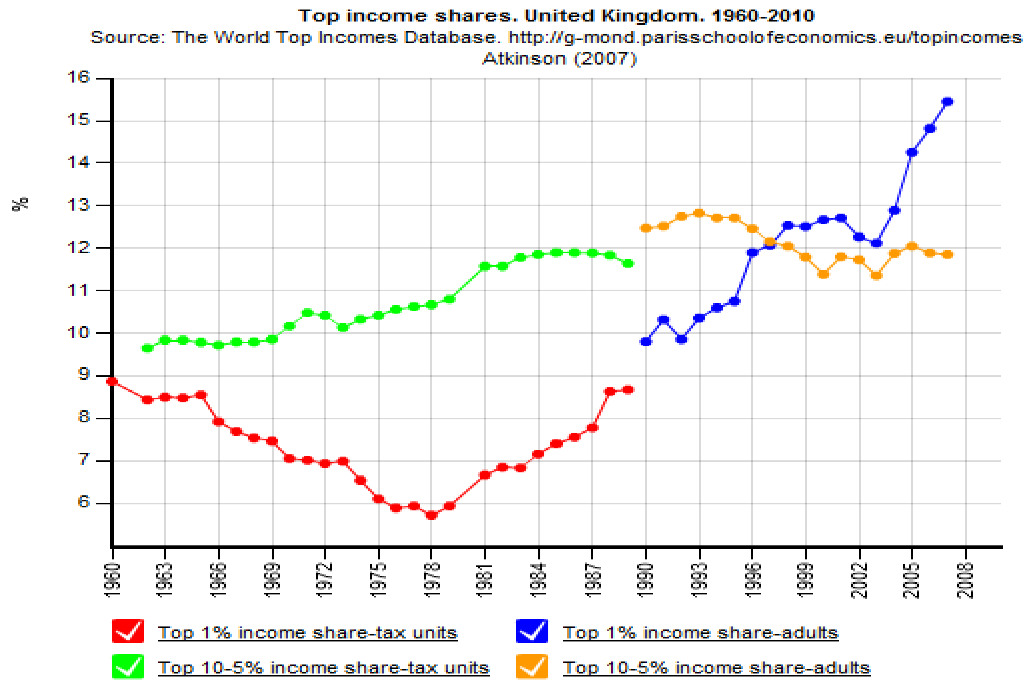


Exhibit 5: Average incomes in the United Kingdom 1960-2000

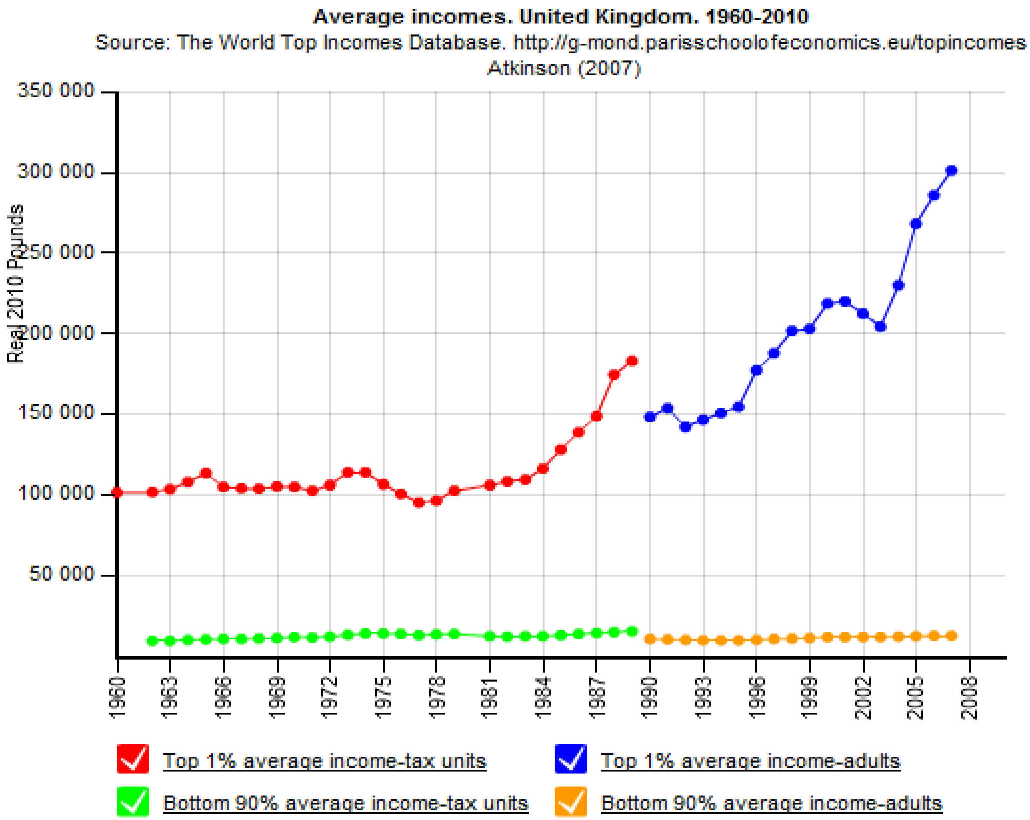
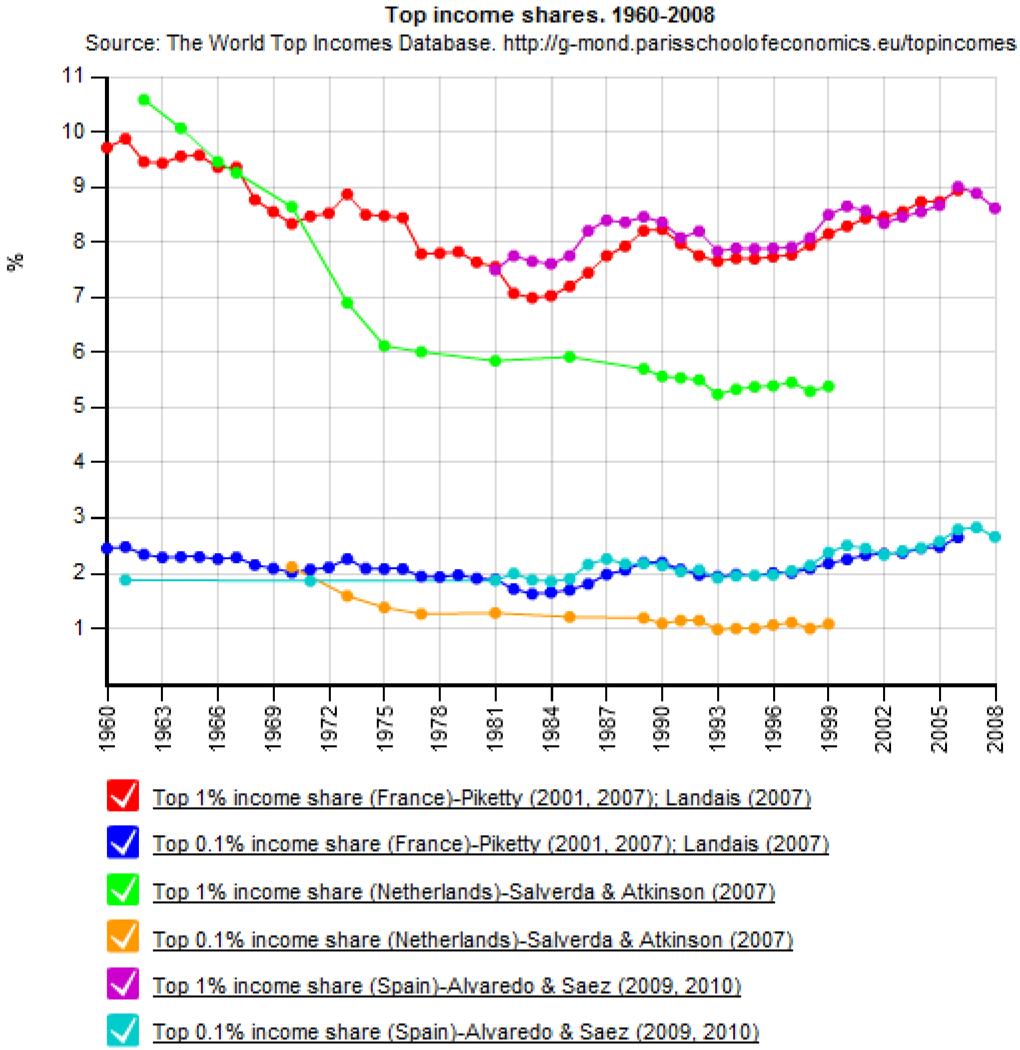


Exhibit 6: Top income shares in France, Spain and the Netherlands 1960-2006



From this series of six graphs two general points may be drawn.

a. Because these income redistributions are country specific they must be due to government policies.
b. The graphs show that in the US and the UK these redistributions of income have taken place regardless of which political party was in power.

2. The new political structure: Plutonomy

The data shown in Exhibits 1-6 imply that the US and the UK have in recent decades experienced significant changes in their political structures. This is not yet a common idea. In the period focused here, roughly from 1980 to the present, there have been no significant changes in the two countries' formal systems of government. But there is more to government than its formal structures. The same institution, for example an elected parliament or even individual political parties therein, may perform radically, systematically and intentionally differently from one historical period to the next, including with regard to the welfare of the general population.[2] The recent histories of the US and the UK are cases in point.

Excepting matters of national security, in both the UK and the US, as in most countries, the material standard of living is almost universally accepted as the primary measure of its population's welfare. Even those political parties commonly identified with the interests of the wealthy, the Conservatives in the UK and the Republicans in the US, have won their seats by convincing the majority that their policies would best serve their material interests by generating larger GDP gains that would be shared between income groups including the majority of the population.

Furthermore, in the more distant past the governments of neither of these parties have been generally associated with upward redistributions of income. And of course even in recent decades, neither the Conservatives nor the Republicans have ever openly campaigned on the promise that they would **affect an upward redistribution of income**. Indeed, in the US and the UK no political party could win elections by openly campaigning on a platform of redistributing income upward to the richest one per cent of the population. But given that governments have affected these redistributions, it follows that the real agendas or platforms of the winning parties have been kept secret.

In the US and the UK either of their two major political parties could win elections **if**, unlike their opponents, **they campaigned in the usual way** but on a promise to stop or reverse the redistribution of income to the ultra-rich. Because only 1 per cent of the population benefits from these upward redistributions and the standard of living of at least 90 per cent suffer from them, it does not seem credible that the electorates would **knowingly** vote for their continuation. Furthermore the six graphs above illustrate the situation in a way that could be easily and quickly grasped by the average voter. A well-funded election campaign that focused on such graphs or the equivalent would have little difficulty getting the true significance of the election across to the majority of voters.

But currently the populations of the US and the UK appear to be nearly totally ignorant of the fact that for over thirty years their countries have been subject to the engineering of huge and extremely skewed upward redistributions of income. This central fact of contemporary political and economic existence for these countries is virtually never discussed in their general media. Nor will you find much about it in economics journals. But, as shown below, where you do find it discussed, and ever so greatly appreciated, is among the 1 per cent.

Together these points imply a change in the political structures of these countries. Why? Because if the major political parties have before them a straight-forward way of winning elections by appealing to the basic material interests of the overwhelming majority of the electorate and they repeatedly decline to do so even when it means defeat, then there must be a **non-democratic reason** that governs their decisions and their access to office. What is it?

[2] ". . . democracy in the United States has eroded; the institutions remain formally intact, but their substance has been subverted to serve the special interest over the general interest." Claude Hillinger, Economics, Vol. 4, 2010, http://www.economics-ejournal.org/economics/journalarticles/2010-23/version_1/at_download/file

3. The Plutonomy Reports

Unlike the 99 per cent, the 1 per cent in the US and the UK are very much aware of both the income redistributions and the new political system that make them possible. They even have a name for it: **plutonomy**. It is the term used by some of the key backers of this political ideology, political movement and concept of government, whose primary players belong to the financial sector.

The history of plutonomy's conceptual development remains clouded in secrecy. But the fact that plutonomy as a real-world political phenomenon is conceptually driven, rather than merely an historical accident, emerged to public view in 2005 when the first of three Citigroup documents prepared for its wealthiest clients were leaked.

- ***"Plutonomy: Buying Luxury, Explaining Global Imbalances"*** Oct. 16, 2005 (35 pages)
- ***"Revisiting Plutonomy: The Rich Getting Richer"*** March 5, 2006 (18 pages)
- **"The Plutonomy Symposium — Rising Tides Lifting Yachts"** Sept. 29, 2006 (64 pages)

Citigroup has gone and continues to go to great links to supress these important historical documents. Websites which post them receive threats of legal action if they are not immediately taken down, and likewise, apparently, the servers of those websites. Roughly a year and a half ago Citigroup lawyers had succeeded in removing them all. But now, using Google, it is easy to find all three documents on the Web, mostly on sites associated with The 99 Percent Movement.

Here are a few passages from the "Citigroup Plutonomy Memos" that outline, in the plutonomist's vernacular, this political ideology's key points and their view of the world. You will notice the strategic nature of these reports. It is this that makes it, from the plutonomist's viewpoint, imperative to keep the content of these historical documents from entering into mainstream discourse.

Report no. 1

> Little of this note should tally with conventional thinking. Indeed, traditional thinking is likely to have issues with most of it.
>
> The world is dividing into two blocs - the plutonomies, where economic growth is powered by and largely consumed by the wealthy few, and the rest. Plutonomies have occurred before in sixteenth century Spain, in seventeenth century Holland, the Gilded Age and the Roaring Twenties in the U.S.
>
> We project that the plutonomies (the U.S., UK, and Canada) will likely see even more income inequality, disproportionately feeding off a further rise in the profit share in their economies, capitalist-friendly governments, more technology-driven productivity, and globalization.
>
> In a plutonomy there is no such animal as "the U.S. consumer" or "the UK consumer", or indeed the "Russian consumer". There are rich consumers, few in number, but disproportionate in the gigantic slice of income and consumption they take. There are

the rest, the "non-rich", the multitudinous many, but only accounting for surprisingly small bites of the national pie.

. . . we think the plutonomy is here, is going to get stronger, its membership swelling from globalized enclaves in the emerging world, . . .

WHERE ARE THE PLUTONOMIES?
The U.S., UK, and Canada are world leaders in plutonomy. . . . . Countries and regions that are not plutonomies: Scandinavia, France, Germany, other continental Europe (except Italy), and Japan.

THE UNITED STATES PLUTONOMY
As Figure 1 shows the top 1% of households in the U.S., (about 1 million households) accounted for about 20% of overall U.S. income in 2000, slightly smaller than the share of income of the bottom 60% of households put together. That's about 1 million households compared with 60 million households, both with similar slices of the income pie!

The rich in the U.S. went from coupon-clipping, dividend-receiving rentiers to a Managerial Aristocracy indulged by their shareholders.

WHY THE PLUTONOMY WILL GET STRONGER WHERE IT EXISTS, PERHAPS ATTRACT NEW COUNTRIES
We posit that the drivers of plutonomy in the U.S. (the UK and Canada) are likely to strengthen, entrenching and buttressing plutonomy where it exists. The six drivers of the current plutonomy: 1) an ongoing technology/biotechnology revolution, 2) capitalist friendly governments and tax regimes, 3) globalization that re-arranges global supply chains with mobile well-capitalized elites and immigrants, 4) greater financial complexity and innovation, 5) the rule of law, and 6) patent protection

At the heart of plutonomy, is income inequality. Societies that are willing to tolerate/endorse income inequality are willing to tolerate/endorse plutonomy.

So an examination of what might disrupt Plutonomy - or worse, reverse it - falls to societal analysis: will electorates continue to endorse it, or will they end it, and why.

Report no. 2

The second report begins by identifying **three** things that have enabled the creation of plutonomies in the US, UK, Canada and Australia: "**Asset booms, a rising profit share and favourable treatment by market-friendly governments**". (emphasis added) Further on it considers:

What Could Go Wrong
. . . the rising wealth gap between the rich and poor will probably at some point lead to a political backlash. Whilst the rich are getting a greater share of the wealth, and the poor a lesser share, political enfrachisement remains as was – one person, one vote (in the plutonomies). At some point it is likely that labor will fight back against the rising profit share of the rich and there will be a political backlash against the rising

> wealth of the rich. . . . . We don't see this happening yet, though there are signs of rising political tensions. However we are keeping a close eye on developments.

Report no. 3

This is the longest of the three reports. Significantly it notes that:

> The rise of this inequality is not universal. In a number of other countries – the non-plutonomies – income inequality has remained around the levels of the mid 1970s. Egalitarianism rules. (p.9)

It singles out Japan, France, Switzerland and the Netherlands as examples and dubs them "The Egalitarian Bunch". Their deviance is then illustrated with a graph titled "The Income Share of the Top 1% Is Relatively Small Compared to Plutonomies".

Further on, after reminding the readership that "plutonomy countries" are those with "economies powered by a relatively small number of rich people" and geared to "financial wealth creation", and noting that the previous week a "Plutonomy Symposium" was held in London, "the risks to plutonomy" are, as in previous reports, considered.

> Perhaps the most immediate challenge to Plutonomy comes from the political process. Ultimately, the rise in income and wealth inequality to some extent is an **economic disenfranchisement of the masses** to the benefit of the few. However in democracies this is rarely tolerated forever. One of the key forces helping plutonomists over the last 20 years has been the rise in the profit share – the flip side of the fall in the wage share in GDP. As plutonomists or capitalists tend to be long {on} the profit share, they have benefited from trends like globalization and the productivity revolution, disproportionately. However, labor has, relatively speaking, lost out. We see the biggest threat to plutonomy as coming from a rise in political demands to reduce income inequality, spread the wealth more evenly, and challenge forces such as globalization which have benefited profit and wealth growth. [emphasis added]

Nonetheless:

> Our own view is that the rich are likely to keep getting even richer, and enjoy an even greater share of the wealth pie over the coming years.

These three plutonomy tracts, being windows both into the plutonomist's mind and to their strategies, contain many interesting points, but for democrats the most significant one is that **plutonomists see the subversion of democratic process as the ultimate key to their success.** If the "political enfranchisement remains" and is allowed to remain, then the "economic disenfranchisement of the masses" is only possible if they can be bamboozled into voting against their interests. It seems inevitable therefore, that plutonomists and their agents have gone to great lengths to suppress these documents.

4. Plutonomy's means to power

How does the financial industry come to control the political parties and individual politicians?

Cost of winning elections is the cost of running a plutonomy.

In the US it has long been the case that the ultra-rich, if so inclined, could buy themselves or a favourite son a seat in Congress. What has changed is that it is has become so expensive to win a seat in the House or the Senate that it no longer is generally possible to do so without the backing of The One Percent. The Open Secrets Organization reports that in the 2010 elections the winners of seats in the House of Representatives spent on average $1,439,997 and the winners for the Senate averaged $9,782,702.[3]

This, however, is just the tip of the iceberg. Between 1998-2008, according to the Wall Street Watch Organization, the financial industry spent more than 5 billion dollars on lobbying and campaign contributions. This included

> more than $1.738 billion in federal elections from 1998-2008. Primarily reflecting the balance of power over the decade, about 55 percent went to Republicans and 45 percent to Democrats. Democrats took just more than half of the financial sector's 2008 election cycle contributions.
>
> The industry spent even more — topping $3.3 billion — on officially registered lobbyists during the same period. This total certainly underestimates by a considerable amount what the industry spent to influence policymaking. U.S. reporting rules require that lobby firms and individual lobbyists disclose how much they have been paid for lobbying activity, but lobbying activity is defined to include direct contacts with key government officials, or work in preparation for meeting with key government officials. Public relations efforts and various kinds of indirect lobbying are not covered by the reporting rules. http://wallstreetwatch.org/reports/part2.pdf

Plutonomy policy changes in the United States

Since 1980 a long series of legislative and executive changes have been made to United States government policy whose effect has been to redistribute income upwards towards the ultra-rich and to increase the concentration of wealth. These changes have taken place in approximately equal measure under Republican and Democratic administrations. Robert Weissman, in an article[4] for Alternet, describes 12 plutonomy inspired deregulatory moves. His first 5 items are as follows:

> 1. The repeal of Glass-Steagall
>
> The Financial Services Modernization Act of 1999 formally repealed the Glass-Steagall Act of 1933 and related rules, which prohibited banks from offering investment, commercial banking, and insurance services. In 1998, Citigroup and Travelers Group merged on the expectation that Glass-Steagall would be repealed. Then they set out, successfully, to make it so. The subsequent result was the infusion of the investment bank speculative culture into the world of commercial banking. The 1999 repeal of Glass-Steagall helped create the conditions in which banks invested monies from checking and savings accounts into creative financial instruments such

[3] http://www.opensecrets.org/bigpicture/elec_stats.php?cycle=2010
[4] http://www.alternet.org/story/130683/%245_billion_in_lobbying_for_12_corrupt_deals_caused_the_multi-trillion_dollar_financial_meltdown

as mortgage-backed securities and credit default swaps, investment gambles that led many of the banks to ruin and rocked the financial markets in 2008.

2. Off-the-books accounting for banks

Holding assets off the balance sheet generally allows companies to avoid disclosing "toxic" or money-losing assets to investors in order to make the company appear more valuable than it is. Accounting rules -- lobbied for by big banks -- permitted the accounting fictions that continue to obscure banks' actual condition.

3. CFTC blocked from regulating derivatives

Financial derivatives are unregulated. . . . During the Clinton administration, the Commodity Futures Trading Commission (CFTC) sought to exert regulatory control over financial derivatives, but the agency was quashed by opposition from Robert Rubin and Fed Chair Alan Greenspan.

4. Formal financial derivative deregulation: the Commodities Futures Modernization Act

The deregulation -- or non-regulation -- of financial derivatives was sealed in 2000, with the Commodities Futures Modernization Act. Its passage orchestrated by the industry-friendly Senator Phil Gramm, the Act prohibits the CFTC from regulating financial derivatives.

5. SEC removes capital limits on investment banks and the voluntary regulation regime

In 1975, the Securities and Exchange Commission (SEC) promulgated a rule requiring investment banks to maintain a debt to-net capital ratio of less than 15 to 1. In simpler terms, this limited the amount of borrowed money the investment banks could use. In 2004, however, the SEC succumbed to a push from the big investment banks -- led by Goldman Sachs, and its then-chair, Henry Paulson -- and authorized investment banks to develop net capital requirements based on their own risk assessment models. With this new freedom, investment banks pushed ratios to as high as 40 to 1.

President Obama is on record as favouring raising the top marginal income tax rate from its current 35% to 39.6%. The table below shows what that rate has been since the end of World War Two. The years in red were those in which a Democrat was president and those in blue a Republican. From 1953 to 1960 Dwight Eisenhower, a middle of the road Republican, was president. And for two of those years the Republican Party also controlled Congress. Yet Eisenhower chose to keep the top rate at 91%. Does that mean that Eisenhower and his Republican Congress were a million miles to the left of Obama? No, of course not. The left-right metaphor no longer pertains to the primary economic issues of the age in which we live. To use it in that context merely obfuscates. Rather than left versus right, the dividing line in today's political economies is The One Percent versus The 99 Percent. And in the US and the UK, regardless of which political party rules, it is The One Percent who are in control.

Exhibit 7: Top Marginal Income Tax Rate in the United States 1946 - 2011

Year	Top Marginal Rate	Year	Top Marginal Rate
1946	86.45%	1979	70.00%
1947	86.45%	1980	70.00%
1948	82.13%	1981	69.13%
1949	82.13%	1982	50.00%
1950	91.00%	1983	50.00%
1951	91.00%	1984	50.00%
1952	92.00%	1985	50.00%
1953	92.00%	1986	50.00%
1954	91.00%	1987	38.50%
1955	91.00%	1988	28.00%
1956	91.00%	1989	28.00%
1957	91.00%	1990	31.00%
1958	91.00%	1991	31.00%
1959	91.00%	1992	31.00%
1960	91.00%	1993	39.60%
1961	91.00%	1994	39.60%
1962	91.00%	1995	39.60%
1963	91.00%	1996	39.60%
1964	77.00%	1997	39.60%
1965	70.00%	1998	39.60%
1966	70.00%	1999	39.60%
1967	70.00%	2000	39.60%
1968	75.25%	2001	38.60%
1969	77.00%	2002	38.60%
1970	71.75%	2003	35.00%
1971	70.00%	2004	35.00%
1972	70.00%	2005	35.00%
1973	70.00%	2006	35.00%
1974	70.00%	2007	35.00%
1975	70.00%	2008	35.00%
1976	70.00%	2009	35.00%
1977	70.00%	2010	35.00%
1978	70.00%	2011	35.00%

Revolving doors

Movements of personnel between roles in government seen as crucial to the financial position of The One Percent and extravagantly paid roles (formal and otherwise) in One Percent institutions are maintained. Motivation for maintaining these movements includes an appreciation of the complex dynamics of their socio-cultural contexts. One such revolving door illustrates the case.

Exhibit 8: The revolving door between Goldman Sachs and the Obama Administration

	Name	Relation to Goldman Sachs and its offshoot the Hamilton Project	Position in Obama Administration
1	Obama, Barack	Goldman Sachs employees contributed $994,795 to Obama's presidential bid.	President
2	Biden, Joe	Goldman has been a major campaign contributor to Biden.	Vice President
3	Altman, Roger	Hamilton Project member and was Assistant Secretary of the Treasury under "Mr. Goldman Sachs", Robert Rubin.	He is "one of those power brokers with all encompassing contacts within the Democratic Party".
4	Brainard, Lael	Associate and protégé of Robert Rubin.	United States Under Secretary of the Treasury for International Affairs
5	Buffett, Warren	He has invested billions in Goldman Sachs.	He is one of Obama's fundraisers and economic advisers.
6	Clinton, Hillary	In 2008 she received $415,000 (inflation adjusted) from Goldman Sachs.	United States Secretary of State
7	Craig, Gregory	He left the White House to become Goldman Sach's chief lawyer in defending against its SEC suit.	He was Obama's White House Counsel.
8	Donilon, Thomas	He was a lawyer at O'Melveny and Myers representing meltdown clients including Goldman Sachs.	Deputy National Security Adviser to Barack Obama
9	Dudley, Bill	He joined Goldman in 1986 and was partner and managing director until 2007.	Federal Reserve Bank of New York President since January 2009
10	Elmendorf, Douglas	He previously was the Director of the Hamilton Project.	He became *Obama's Director of the Congressional Budget Office* in January 2009.
11	Emanuel, Rahm	Received large contributions from Goldman Sachs as a Congressman and was on a $3,000 a month retainer from Goldman while he worked as Bill Clinton's chief fund raiser.	Obama's Chief of Staff, the very first person Obama selected to be in his administration.
12	Farrell, Diana	She worked for two years at Goldman Sachs.	Deputy Director of the National Economic Council
13	Friedman, Stephen	He worked for much of his career with Goldman Sachs, holding numerous executive roles and still serves on the company board.	Chairman of Obama's Foreign Intelligence Advisory Board
14	Furman, Jason	Former Director of the Hamilton Project	He was director of economic policy for the Obama Presidential Campaign.
15	Fudge, Anne	Trustee of the Brookings Institution within which the Hamilton Project is embedded	Member of Obama's budget deficit reduction committee
16	Gallogly, Mark	He is member of the Hamilton Project's advisory council.	He is a member of President Barack Obama's President's Economic Recovery Advisory Board.
17	Geithner, Timothy	A protégé of both Henry M. Paulson Jr., a former chief executive of Goldman Sachs, and Robert Rubin, former co-chairman of Goldman Sach.	He was Obama's Secretary of the Treasury.
18	Gensler, Gary	He was a Goldman Sachs partner.	Obama's Commodity Futures Trading Commission head.
19	Greenstone, Michael	Director of the Hamilton Project	He was an economic adviser position to Obama.
20	Hormats, Robert	27 years at Goldman Sachs, including as the Vice Chairman of Goldman's international arm.	The top economics official at Obama's State Department
21	Kashkari, Neel.	Former Vice President of Goldman Sachs	He worked for Obama on TARP oversight.
22	Kornbluh, Karen	She was Deputy Chief of Staff to Robert Rubin.	Obama's Ambassador to the OECD
23	Lew, Jacob	He sits on the Brookings-Rubin funded Hamilton Project Advisory	United States Deputy Secretary of State for Management and Resources

		Board.	
24	Orszag, Peter	He was the founding director of Goldman Sachs' Hamilton Project	Obama's Budget Director
25	Patterson, Mark	Former lobbyist for Goldman Sachs	verseer of TARP bailout funds, $10 billion of which went to Goldman.
26	Rattner, Steve	A billionaire financier who sits on the Advisory Council of the Goldman funded Hamilton Project.	He oversaw the Obama Administration's rescues of General Motors and Chrysler,
27	Reischauer, Robert D.	He has close ties to Robert Rubin and sits on the Advisory Council of the Goldman funded Hamilton Project.	Appointed by Obama as one of the two public trustees of the Social Security and Medicare trust fund.
28	Rivlin, Alice	She is a member of the Hamilton Project board and of the board of directors of the New York Stock Exchange.	Appointed by Obama to his "deficit reduction commission".
29	Rubin, James	Son of Robert Rubin (see next entry).	Served as a headhunter for Obama
30	Rubin, Robert	26 years at Goldman Sachs and its former co-chairman. Also former Chairman of Citigroup. Along with Goldman Sachs, he funded the Hamilton Project.	Regarded by insiders as the de facto President of the United States.
31	Sperling, Gene	In 2008 he was paid $887,727 by Goldman Sachs as a consultant.	Advisor to Obama'sTreasury Secretary Tim Geithner on financial bailouts and other matters.
32	Storch, Adam	Former Vice President of Goldman Sachs	Obama appointed him Managing Executive of the Security and Exchange Commission's Division of Enforcement.
32	Summers, Larry	He landed a big-time job at Goldman Sachs after crashing as Harvard's President. In 2008 Goldman Sachs paid him $135,000 for a single speech.	Obama's chief economic adviser and head of the National Economic Counsel.

Source: compiled from "A List of Goldman Sachs People in the Obama Government", by fflambeau, April 27, 2010, http://my.firedoglake.com/fflambeau/2010/04/27/a-list-of-goldman-sachs-people-in-the-obama-government-names-attached-to-the-giant-squids-tentacles/

Pultonomy's strategic policy

From the foregoing cursory look at the workings of plutonomy there emerges a basic outline of its strategic policy.

- The radically skewed upward redistributions of income are kept out of the news and public discussion.
- The *primary policies* of the major political parties, i.e., those effecting and preserving the income redistributions, are kept a secret from the electorate.
- The financial cost of winning elections is kept at a level which requires the financial and media support of the One Percent, meaning that, with rare exceptions, winning candidates campaign on a platform and in a manner that does not jeopardise the upward redistribution of income.
- Office holders know that in time large financial rewards are likely to accrue to them if they serve well plutonomy's interests.
- This decisive leverage is then used
    - to control government economic policy, and
    - to control appointments to economically key government positions.

There are many ways that power operates to produce a confluence of outcomes and a broad shape to policy in terms of what is deemed possible and what is preferred. These range from simple pressure, to the broader disciplining of policy venues, networks and actors that expresses itself in institutions and organizations. All are relevant to the way Plutonomy maintains power.

Plutonomy and financial bubbles

Plutonomy's power base is of course the financial rather than the industrial sector of the economy. The US and UK economies have been financialized, meaning, among other things, that the financial sector no longer sees its primary function as servicing the financial needs of the industrial sector, in particular, the raising of funds for economic investment. Instead of being seen as one of the means of economic production, financial assets have come to be seen as ends in themselves. Under financialization fortunes are sought not through the profits of economic production, but rather through financial assets themselves. This pursuit takes three primary and interconnected forms:

1. Creation of leverage or Ponzi schemes that enable huge expansion of one's financial holdings,
2. The securitizing of debts, often in a fraudulent manner.
3. Profiting from changes in the values of financial assets.

Because funds are increasingly channelled into the purchase of existing financial assets rather than into economic investment, growth and even maintenance of the real economy is curtailed and impaired, which then requires debt financed consumption.

Under plutonomy's rule the financial sector's profit-seeking activities become focused primarily on the buying, selling, packaging and repackaging of either existing financial assets or new ones attached to existing real assets. Success at this pursuit and the creation of financial bubbles are interlinked. Leverage is used both to increase asset holdings and to inflate their price. The rising prices attract investors, especially pension funds, from outside the plutonomy's inner core which inflates prices still more until eventually bubbles burst. But bubbles burst because some people sell off at the top, leaving themselves with proportionately huge profits. They then wait for the bubble to deflate before buying back in with, if they wish, a much larger stake than before. For these people (And where other than The One Percent are they likely to me found?) it is the bursting of bubbles as much as their creation that makes them richer still.

5. Conclusion

The three and a half years of economic history since the bursting of the last bubble testify to the entrenched, unchallenged and still increasing power of the plutonamists. Unlike after the Crash of 29, nearly all of the government funds injected into the economy – and they have been of an historically unprecedented magnitude for peacetime – have gone **not** into the real economy, but instead into re-inflating the market-value of financial assets, owned in the main by The One Percent. The result was entirely predictable. The pair of the charts for the United States below sum up the radically different fates of the two dimensions of the economy and of their two corresponding groups of citizens.

Exhibit 9: Civilian Employment-Population Ratio – United States 2000 – 2012

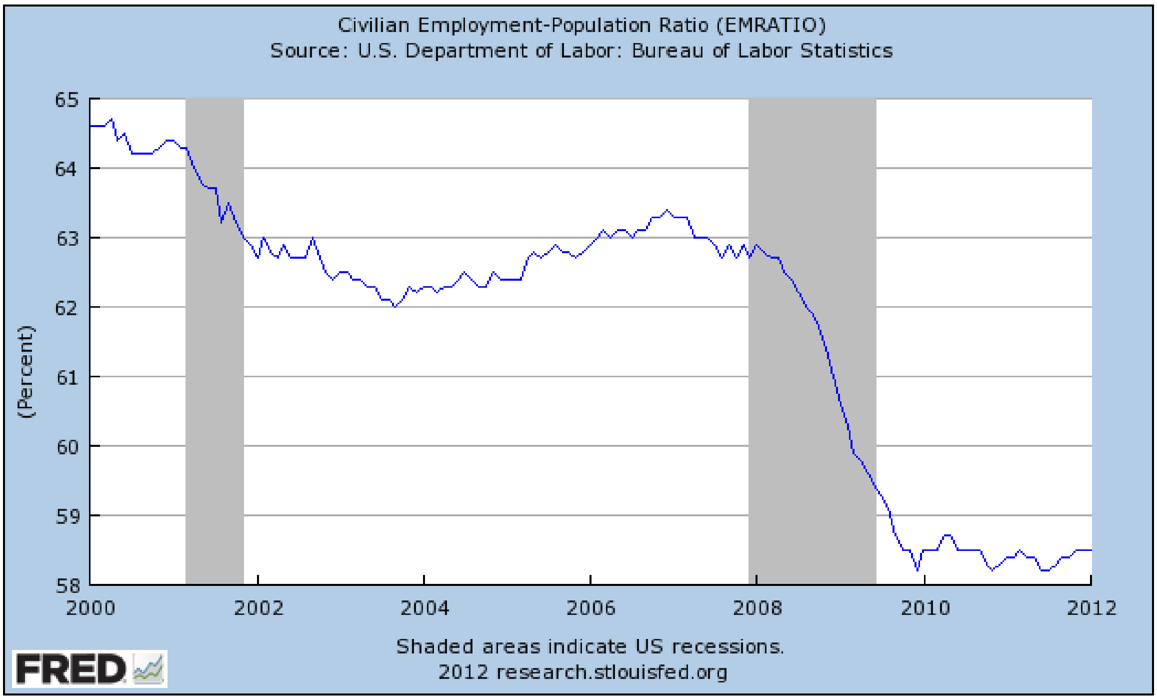


Exhibit 10 : Dow Jones 2000 – 2008

Source: http://www.digitallook.com/security.cgi?csi=50096&username=&ac=

The political-economic structure that created the current global crisis, and also the DotCom bubble and crash that preceded it, is unlikely to change any time soon. True, there is in the

United States, and to a lesser extent in the UK, much public anger regarding the recent collapse and its consequences. But until very recently there was neither a constructive and realistic narrative nor an organizational vehicle through which to harness that public anger. Instead the Tea Party movement was cleverly funded by plotonomists as a means of channelling public anger in a way that strengthens the political base of plutonomy and promises to further accentuate the upward redistribution of income. Likewise the recent successful selling of Austerity.

More significant in the longer run is that any inhibitions that The One Percent may have had about creating bubbles should now be greatly reduced. The largest financial institutions, the ones most involved in creating bubbles, are now confident, whereas they were not a few years ago, that if they should fail to liquidate their holdings before the next bubble bursts, they will be bailed out at taxpayers' expense. Their executives also know that they will not be prosecuted for their frauds and that their billions of pounds of bonuses will continue to be paid.

For pro-democracy people the recent emergence of the Occupy or 99 Percent Movement is both a positive step and the sort of thing that the Citigroup reports cite as the ultimate danger to continued plutonomy rule. But that movement still exists only at the margins. It is much too early to tell if it will grow to have, directly or indirectly, an influence at the polls, nor even through what channels such influence might be realized. Furthermore there is not yet at the public level a narrative that identifies and focuses on the relevant political-economic structures, and explains how their policies have created and will in the future create financial bubbles which end with global crises and further upward redistributions of income. In short, regarding the political economy of today's world, in key countries ignorance prevails.

The changes in the political economies of the US and the UK described in this paper imply changes in the nature of the economies themselves. These changes will be considered in the first of two sequels to this paper, "Financialism versus Capitalism".

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