The Mysterious Foundation of Wealth

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It is no mystery that the wealthy do all in their power to hide the source of that wealth. The only mystery is that their efforts seem so successful when the source is so obvious.

Take the Roman slave system as an example. Slaves were clearly the foundation of Roman power and wealth. That doesn't mean everyone else was a parasite. Many free Romans made significant contributions to Roman society, especially in areas of health, science and the arts. But remove the foundation of that society at any point in its development and it will collapse. On the other hand, remove the secondary, marginal, element and that society will be diminished, but it will still exist as a functioning entity. The same applies to serf/feudal and worker/capitalist systems.

An American example of all three phases of parasitic social systems on display in a single enterprise was described by Charles Dew in his Bond of Iron: Master and Slave at Buffalo Forge. Both skilled black slaves and white free men were paid identical wages for their piece work. In addition, the owners of Buffalo Forge had an extensive agricultural investment, some of which operated on the sharecropper principle. The muddle of three forms of exploitation went further in that slaves were permitted to deposit savings in a company bank for which they were paid interest. Since providing for all their needs was one of the "benefits" of slave status, that meant they "profited" from their own enslavement.

Looking back on ancient slavery and feudalism, most would agree that the obscene wealth of the rulers, and the enrichment of those that invested in their enterprises, came from the surplus of the aggregate of what the slaves and serfs produced beyond what was required for their continued existence and reproduction. Today anyone with savings to spare can invest in corporations and receive some of the unpaid product of the current exploited class, either through dividends or trading the securities. The drive to privatize the pension system has further muddled class divisions by forcing workers to swallow some of the unpaid product of their own sweat. Many who work for a living experience a fleeting sense of guilt when booming stock markets bring home significant sums of free money. They know that they have received something that rightfully belongs to others, either at home or abroad. But not to worry, with the economy now flying without wings, relief is on the way.

In October many of the markets worldwide went into a steep dive. Governments and central banks worried that the fictitious nature of the recovery would be revealed and they went all out to maintain the facade. November brought back the return of the normal abnormal, and they thought they had a respite because in December markets always do well. Except for the start of this one. A scarier slide than October continued into the first part of this week. Everyone looked to the Fed's Wednesday meeting, and the Fed was still able to dig enough out of its

frayed hat to confuse the markets upward. It all rested on the earlier critical phrase that interest rates would remain near zero "for a considerable time following the end of the asset purchase program." That was replaced by "the committee judges that it can be patient in beginning to normalize the stance on monetary policy." Note -- "patient" is just a substitute for "considerable time." They couldn't very well use the same wording because a recovery means change, and since that is not happening they had to juggle the wording to make it seem so. Yet they still wanted speculators to get the hint that it was still business as usual, so they added that their guidance "was consistent" with the previous statement. Krugman is probably right in predicting that the Fed will not raise rates in 2015.

Thursday produced an even louder boom (Dow up more than 400) because the Fed extended its destruction of the 2010 Dodd-Frank financial reform act. The implementation of the Volcker Rule, that would forbid federally insured banks from using their own money to invest in risky assets, was further pushed off into the future for more types of risky ventures. Investing in CDO's (the poison that killed the last boom) can already continue for more years, now the same applies for hedge funds and private equity funds. Only the proprietary trading provision is still set for July 1 of next year. Not to be outdone, last week Congress obeyed the command of the Citigroup coalition to repeal the provision that required investments to be paced in non-federally insured holding funds. Please note that the main source of outrage after the bust that caused the current depression was that those responsible were bailed out by taxpayer funds. All these revisions and extensions keep the taxpayer on the hook for the next one. Nothing makes it clearer that capitalism is suffering an incurable systemic crisis.

Will it be an oil bust that does it this time? A Goldman Sachs study reported that almost $1 trillion of investments in future oil projects is in danger if oil falls below $70 a barrel and remains there for a significant period. Today Bloomberg reported a "surge" in oil prices -- American crude rose all the way from $54 to $56 a barrel. Friday really did experience a surge in Dow and Nasdaq trading with volume over 10 billion shares. But markets were only slightly higher reflecting also a surge in bulls and bears conflict.

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