



Epsilon Theory

***Snip!* (The Long Now, Pt. 4)**

December 26, 2019

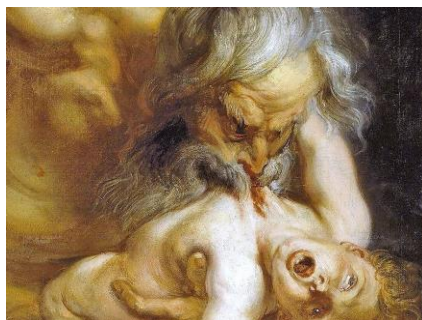
The Long Now is everything we pull into the present from our future selves and our children.

The Long Now is driven by the constant *stimulus* applied to our economy and the constant *fear* applied to our politics.



The Long Now is personal.

Tick-tock.



The Long Now is political.

Make – Protect – Teach.



The Long Now has a micro structure.

Wink.

Today's note is on the macro structure of the Long Now.

Today's note is on the untethering of fundamental linkages between the economic policies that organize our social lives as investors and citizens.

Snip!

Today's note is on how we survive the Long Now. Because it won't be easy.



That's George Clooney in *Gravity*, right before he ends up like this.



The spacewalking astronaut, risking the abyss with only a slim tether to life, is a powerful trope. *Gravity* was an entire movie about that frisson of fear we get from these images, although for my money it doesn't get better than Frank Poole's murder by HAL in *2001: A Space Odyssey*, with the loong shot of the body

tumbling uncontrollably through space. Because it's not just the aloneness and abandonment that sparks our hard-wired emotional response here, but the out-of-controllness of being truly untethered.



We've got happy-ending movies that use this trope (*The Martian*), Russian movies that use this trope (*Spacewalker*), and even haunted-house-in-space movies that use this trope (*Event Horizon*). So you'll forgive me if I'm going to use this imagery, too, because it's the best story-telling device I know to instill in you the fear and loathing I feel when I think through the consequences of the Long Now.

SNIP! is the Long Now's destruction of the *meaning* of words that define our social connections.

Words like "war".



This is a picture of the Predator drone firing a Hellfire missile. It's probably going to kill someone that we want dead, and almost certainly going to kill some other people that we don't mind being dead ... collateral damage and all that. As they say on *Succession*, you can't make a Tomlette without breaking a few Greggs. This is war, and we fire these missiles all over the world, on the daily, both in countries we have officially invaded, like Afghanistan, and in countries we haven't, like Pakistan and Yemen.

But we have redefined war to NOT mean things like drone and cruise missile attacks, to NOT mean things like "observer" or "training" missions. We have redefined war to ONLY mean American troops being shot at.

So politicians can speak the words "End the war in Country XYZ!" without actually meaning it. Because what they mean is preventing any American troops from being shot at. But the actual war of drones and missiles and killing ... that continues. And it will continue forever in the Long Now.

Words like “capitalism”.



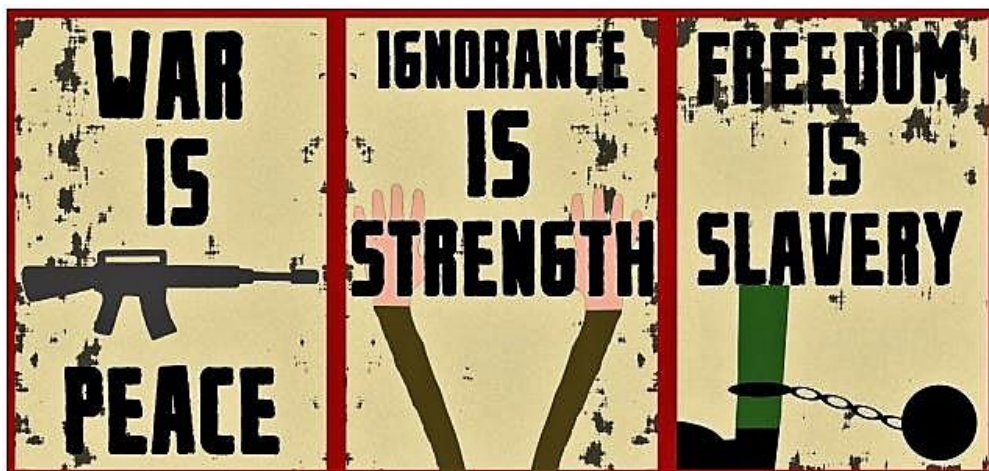
This is a picture of the billionaire CEO of a government-supported too-big-to-fail megabank, telling his *60 Minutes* interviewer that he has no control over his compensation, as that’s determined by the CEO’s board of directors. Interestingly enough, this is also a picture of the billionaire Chairman of that board.

And it’s not just the billionaire CEO bank manager. It’s his centimillionaire lieutenant bank managers. It’s the dozens of decamillionaire sub-lieutenant bank managers. All of them made generationally rich from stock-based compensation in a company where the government guarantees their success. None of them entrepreneurs. None of them risk-takers with their own skin in the game. All of them ... lifer managers of a too-big-to-fail bank.

But, hey, the stock is up! They’ve done a good job! What’s the problem, Ben?

That’s exactly the problem. The problem is that we have redefined capitalism to mean “the stock is up”. We have redefined capitalism to NOT mean Smith’s invisible hand or Schumpeter’s creative destruction or productivity-enhancing and risk-taking investments in the real economy. We have redefined capitalism to ONLY mean financial asset price inflation in the here and now. By any means necessary. So that’s what we get. From the Fed, from the White House, from corporate management ... that’s what we get in the Long Now ... an endless series of policies and decisions in service to capitalism-as-financialization, where capital markets are maintained as a political utility.

George Orwell, who called the Long Now an “endless present, where the Party is always right”, understood how the most powerful weapon of a totalitarian society is to control its *language*, so that War IS Peace, Freedom IS Slavery, and Ignorance IS Strength.



Why? Because control over the meaning of words is control over how we THINK. When we no longer remember what words mean, when we are TOLD over and over again a NEW meaning ... we start to doubt ourselves. *We start to doubt our own autonomy of mind.* And that's when they win.



Iakov Guminer, *Arithmetic of an alternative plan* (1931)

In the end the Party would announce that two and two made five, and you would have to believe it. It was inevitable that they should make that claim sooner or later: the logic of their position demanded it. Not merely the validity of experience, but the very existence of external reality, was tacitly denied by their philosophy. The heresy of heresies was common sense.

And what was terrifying was not that they would kill you for thinking otherwise, but that they might be right.

-- George Orwell, 1984

The Long Now is the **Fiat World** of reality by declaration, where we are TOLD that inflation does not exist, where we are TOLD that wealth inequality and meager productivity and negative savings rates just “happen”, where we are TOLD that we must vote for ridiculous candidates to be a good Republican or a good Democrat, where we are TOLD that we must buy ridiculous securities to be a good investor, and where we are TOLD that we must borrow ridiculous sums to be a good parent or a good citizen.

And the most terrifying thing is that you start to think they might be right.

Hey, maybe the whole Ukraine thing really is Trump “fighting corruption” and maybe the whole Saudi thing really is Trump “bringing the troops home”. Maybe the really important thing about Jeffrey Epstein is whether or not he committed suicide. Maybe we should really try some “democratic socialism” in 2020 ... how bad could it be?

Self-doubt is a *biologically* terrifying condition for a social animal like humans, and that's why you see more and more of us **becoming rhinoceroses**. That's why you see more and more well-meaning citizens willingly give over their autonomy of mind to the MAGA Train or the Bernie Bros ... some sort of social Answer with a capital A ... so that the torture of self-doubt can end.

That's why, in the end, Winston loved Big Brother.

And make no mistake, the Answer is always totalitarian. Not merely authoritarian, but totalitarian. It brooks no dissent, in ANY aspect of your life. The Answer is a general closed-form solution, something we

are hard-wired to *want*, but something that is impossible to *find* in a social system. Yes, **this is the Three-Body Problem**.

Unfortunately, I believe that the totalitarian Long Now is going to get a lot worse before it gets any better. I believe that we are going to doubt ourselves in new and profound ways over the next decade. I believe that our common sense will become even more the heresy of heresies.

Why?

Because the Long Now has redefined the *meaning* of “taxes”.

Because the tether between taxation and spending – the most important macroeconomic policy relationship for our lives as both investors and citizens – has been severed.

Oh, I know that this snip-of-no-return doesn't feel bad. Yet. In fact, it probably feels pretty darn good to you right now.

*Funny how fallin' feels like flyin'
For a little while*

That's from a song in the movie *Crazy Heart*, and that's where we are right now. So yeah, you're going to be told that $2 + 2 = 5$, that it's no big deal to cut the cord between taxes and spending, that in truth it's *good* for you. And yeah, you're going to start to think that they might be right.

The redefinition of taxation and the severing of the Tether of Meaning between taxes and spending isn't something that I think WILL happen. This is something that I know HAS happened. We've had a steady fraying of this cord for about two decades now, ever since Al Gore's idea of a Social Security “lockbox” (where those taxes could ONLY be used for Social Security spending and paying down the existing debt) was met with derision rather than acclaim by both parties. Yes, both parties. By steady fraying I mean over both Republican and Democrat administrations. The political beneficiaries of the fraying are different when it's Republicans doing the snipping or Democrats doing the snipping, but the INTENT – to eliminate the tether between taxation and spending – is the same whether you're George Bush or Barack Obama. Or Donald Trump. Destroying the relationship between taxation and spending is not a partisan thing. It's a power thing. It's a Management thing.

I mean, there are still people who believe that the money they pay in Social Security taxes is *their* money, that they've purchased some sort of old age income insurance plan with *their* money, like an annuity where *their* money is invested somewhere to support that income down the road.

But that's a lie.

In truth there is ZERO relationship between social security taxes and social security benefits today, other than sharing the words “social security”. In truth they are two entirely separate government programs, the former a regressive tax on workers that goes into the big pot of the annual budget and the latter a wealth transfer program to old people that comes out of that budget.

SNIP!

So for twenty years Republicans and the Democrats have gone back and forth to steer taxation and spending to their political advantage, with divided government being the only thing to keep the tether intact. But divided government vanished with Donald Trump’s election, and as a result we got the 2017 Tax Cuts and (LOL) Jobs Act, which I think was the final cut.

What did the TCJA do? It lowered taxes by trillions without reducing spending by a dime.

The TCJA levered up the United States of America.

Management levered up our country and used the proceeds to provide a windfall gain for corporations and the rich. You know ... “returning capital to job creators”. In exactly the same way that Management might lever up a company and use the proceeds for a big stock buyback. You know ... “returning capital to shareholders”.

Both of these narratives – “returning capital to job creators” and “returning capital to shareholders” – had a truth to them, an important truth. I believed in the important truth of both of these narratives for most of my adult life! And yes, I’m using the past tense.

Because in the Long Now, the meaning of both narratives has been perverted beyond all recognition.

Both are now part and parcel of the Trickle-Down Lie, that the crumbs that fall off massa’s table are crumbs that you wouldn’t get otherwise, so let’s celebrate all those extra crumbs. Yay, crumbs!

And yes, there’s an Epsilon Theory note or three for that.



Pecking Order

The pecking order is a social system designed to preserve economic inequality: inequality of food for chickens, inequality of wealth for humans. We are trained and told by Team Elite that the pecking order is not a real and brutal thing in the human species, but this is a lie. It is an intentional lie, formed by two powerful Narratives: trickle-down monetary policy and massive student debt financing.



This Is Water

Time to add a fourth shift in the Zeitgeist: capitalist productivity, now 200+ years old, is becoming capitalist financialization. Wall Street gets something to sell, management gets stock-based comp, the Fed gets a (very) grateful Wall Street, and the White House gets re-election.

What do YOU get out of financialization? You get to hold up a card that says “Yay, capitalism!”.



Yeah, It's Still Water

One day we will recognize the defining Zeitgeist of the Obama/Trump years as an unparalleled transfer of wealth to the managerial class.

But if we're no longer even pretending that taxes are necessary to support spending ...

If we agree that neither the Republicans nor the Democrats care about fiscal policy except as it advances their myopic political goals ...

Then what are taxes FOR?



Yep, this is our George-Clooney-realizes-he-is-about-to-be-flung-into-outer-space moment.

In the Long Now, taxes are for ... justice.

In the Long Now, taxes are for ... equity.

In the Long Now, taxes are for ... retribution.

And what do *those* words mean?

Whatever Management says they mean.

Donald Trump has a vision of how to use taxes for HIS conception of justice, equity and retribution, a vision that – well, how about that! – advances his political power.

The primary beneficiaries of the TCJA are large public companies, particularly the multinationals that dominate the S&P 500. For example, in each of the past two years, Amazon has availed itself of the deductions and deferrals and lower corporate rates created by the TCJA to be a “net-negative US Federal cash taxpayer”. In English, that means that in each of the past two years, the US Treasury has written checks of more than \$100 million to Amazon out of YOUR tax dollars. I know you think I’m making this up, but check out Amazon’s 10-K. It’s all there.

The components of the provision for income taxes, net are as follows (in millions):			
	Year Ended December 31,		
	2016	2017	2018
Current taxes:			
U.S. Federal	\$ 1,136	\$ (137)	\$ (129)
U.S. State	208	211	322
International	327	724	563
Current taxes	1,671	798	756
Deferred taxes:			
U.S. Federal	116	(202)	565
U.S. State	(31)	(26)	5
International	(331)	199	(129)
Deferred taxes	(246)	(29)	441
Provision for income taxes, net	\$ 1,425	\$ 769	\$ 1,197

And before you @ me, I am NOT saying that Amazon doesn’t pay taxes. What I am saying is that I really don’t care how much Amazon pays in taxes to freakin’ Ireland. What I am saying is that Amazon is cashing checks from the US government instead of writing checks. As the kids would say, let that sink in.

How does this advance Trump’s political power? Because the windfall tax benefits that the TCJA created for large public companies like Amazon and Apple and Microsoft translate directly into higher stock prices. Because in Trump’s own words, “the stock market is my report card”. Because Trump realizes that you can politically argue to death whether the real economy is doing better or worse, but you can’t argue with a new high for the Dow Jones.

What does it mean to transform capital markets into a political utility, *and use the tax code to do it*? This.

Similarly, Bernie Sanders and Elizabeth Warren and No Malarkey Joe and Mayor Pete and all the rest have a vision of how to use taxes for THEIR conception of justice, equity and retribution, a vision that – well, how about that! – advances their political power.

None of the “wealth tax” proposals you hear from the Left are being proposed to pay for anything in a *budgetary sense*. They are explicitly proposed so that the rich pay their *fair share*. In fact, when candidates make the mistake of expressing their wealth tax idea in a fiscal sense – as Elizabeth Warren did when she linked it to “paying for” Medicare-for-all – the narrative immediately shifts from “fairness” to “making the numbers add up” (Spoiler Alert: they don’t and they never will), and these candidates immediately take a hit in the polls.

Bernie gets it. He doesn’t even pretend to make this about budgets. He realizes that the political popularity of the wealth tax has nothing to do with making the rich pay for a *government program*, and everything to do with making the rich pay for *their sins*. And yes, Bernie believes that great wealth is a sin. He believes that great wealth should not be *allowed*, not because it’s a source of unaccountable political power (my beef with great wealth), but because he believes it is fundamentally *unfair*. So do a lot of voters, maybe more than care about the Dow Jones.

SNIP!



Feeling out of control yet? Wait, there’s more!

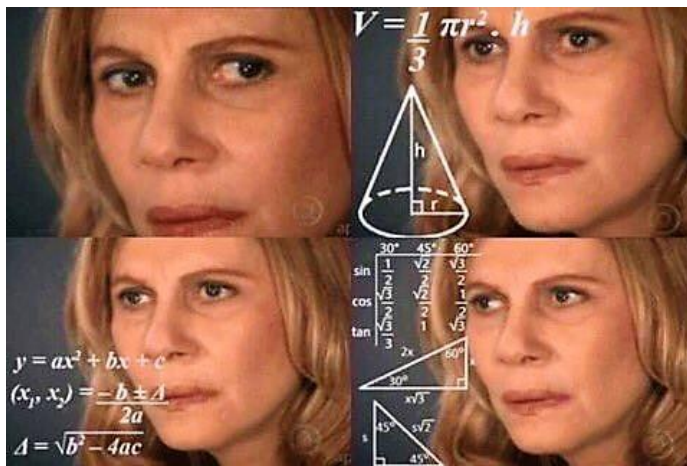
If the meaning of spending is no longer constrained by taxation ...

Then what is spending FOR?

In the Long Now, spending is ALSO for justice and equity and retribution ... ALSO in whatever mode or measure fits the regime goals of whatever Management is in power at the time.

I think that whoever is elected in 2020, we will see a \$2 trillion spending plan enacted in 2021.

If it's a second term for Trump, it will be the *2021 Make America Great Again Act*, and we will call them "Infrastructure Bonds". If it's a first term for a Democrat, it will be the *2021 Take Back America Act* or something like that (I suppose if it's President Biden we can hope for the *2021 No Malarkey Act*, although I'm rooting for the *2021 OK, Boomer Act*), and we will call them "Green Bonds".



In either case, I expect that the Fed will monetize at least half of the bond issuance. At least half.

In either case, I expect that the primary corporate beneficiaries of the spending will be exactly the same. Exactly the same.

And so here we are.



I believe there are no limits to the retributive and malicious use of taxation as a political weapon.

I believe there are no limits to the retributive and malicious use of spending as a political reward.

Sometimes those political weapons and rewards will be used by the rich and the old against the non-rich and the non-old, as we saw with the TJCA and Trump. Sometimes it will be the other way around, as we will see the day after a Democrat takes the White House, whenever that might be.

What's to be done? Well, I suppose this is the point where I should tell you what I would do if I were given magic genie powers to change the world from the top down. And then you'd argue with me about my proposals and tell me what you would do if given magic genie powers.

How about we not do that? I don't have magic genie powers. And neither do you.

It's not that the severing of taxes from spending WILL happen. It's not that the NEXT administration is going to make the cut. It's ALREADY happened. It's been happening for twenty years! This ship has sailed, and now there's not a damn thing that you or I can do to turn it around. All we can do now is survive the voyage.

When I started this note, I said I wanted to instill an emotion of fear and loathing in you from the realization that the *meaning* of taxes had become untethered from the *meaning* of government spending. That phrase – fear and loathing – is of course a catchphrase for Hunter S. Thompson, who used it in the titles of his best-known works ... *Fear and Loathing in Las Vegas*, *Fear and Loathing on the Campaign Trail*, etc. Thompson had lots of catchphrases, lots of mottos, lots of great quotes. My all-time favorite, though, is this:



When the going gets weird, the weird turn pro.

I love it because there are so many plausible interpretations, and it just sounds so cool to take a tired inspirational quote about what to do when the going gets tough, blah blah blah ... and turn it on its ear. Or foot, or whatever body part you think Thompson would have approved. Here's what it means to ME.

“The going gets weird” = an economic and political environment that no one alive has experienced.

I think that the smiley-face totalitarian genie (and yes, I wrote ‘totalitarian’, not ‘authoritarian’) is going to be let out of the bottle as the *meaning* of taxes becomes justice, equity and retribution.

I think that the not-so-smiley-face inflation genie is going to be let out of the bottle as the *meaning* of spending in the real economy becomes untethered from any concern of paying for it.

To paraphrase Richard Nixon paraphrasing Milton Friedman, we’re all MMTers now. “Modern Monetary Theory” is here, firmly ensconced in BOTH political parties here in the Long Now.



We’re All MMTers Now

If Trump is reelected in 2020, I think he pushes forward a \$2 TRILLION bond issuance that is fully or partially monetized by the Fed. They’ll be called Infrastructure Bonds. If a Democrat is elected in 2020, I think she or he pushes forward a \$2 TRILLION bond issuance that is fully or partially monetized by the Fed. They’ll be called Green Bonds. We’re all MMT’ers now.



Modern Monetary Theory or: How I Learned to Stop Worrying and Love the National Debt

Modern Monetary Theory is neither modern nor a theory. It’s a post hoc rationalization of politically expedient policy that makes us feel better about all the bad stuff we’ve done with money and debt in service to Team Elite. And all the bad stuff we’re going to do in the future.

A recession isn’t weird. Deflation isn’t weird. Authoritarian isn’t weird. I don’t think ANY of those things is coming down the pike, and you don’t need my help (or anyone else’s) if any of them does.

But smiley-face totalitarian stagflation where capital markets have been transformed into a propped-up-at-all-costs political utility?

Now THAT’S weird. And that’s what I think IS coming down the pike. And we’re all going to need all the help we can get. Which gets us to the second half of Hunter S. Thompson’s quote.

“The weird turn pro” = an all-in engagement for those who see the societal transformation; a recognition that the fundamental rules of the social game have changed, and a willingness to confront the implications of that change in every aspect of your life without surrendering to an Answer.

How do we confront the Long Now?

Personal courage

Leaders who act as stewards of the future, not managers of the now.

Professional courage

Investors who take more risk with what's Real, and less with what's not.

Social courage

Citizens who take back their vote, and who refuse to play the fool.

You know, in one of my twitter fights with Angry-Billionaires-and-their-Renfields™, I was called “a bizarre combo of Zerohedge and self-help guru”. It was meant as an insult, of course, but for me ... man, I wear it like a badge. Because I DO believe, in Zerohedge-esque fashion, that “the system” is designed by and for a Team Elite that, in the immortal words of *The Outlaw Josey Wales*, pisses down our backs and tells us it's raining. And I DO believe, in self-help guru-esque fashion, that the only effective resistance to the Nudging State and the Nudging Oligarchy is through a bottom-up grass-roots social movement that is driven by one thing and one thing only: each individual's courage and determination to maintain their autonomy of mind ... the courage and determination to believe that $2 + 2 = 4$.

The revolution will not be televised. The revolution will not be in the streets.

The revolution will be in our hearts.

It's the hardest thing you'll ever do, precisely because no one will be watching.

But you won't be alone.

In 2020, we're going to host an international conference to come together on this, an Epsilon Theory Forum. It's intended to be the anti-Davos ... a meet-up for those who still have a soul, who care about something bigger than the celebration and perpetuation of Team Elite. And I can promise you this ... there won't be a single billionaire on a panel at the ET Forum. But there will be plenty of real people ... people with ideas and experiences that aren't contingent on how many zeros they have after their name.

Clear eyes, full hearts, can't lose.

Make / Protect / Teach.

As wise as serpents, and as harmless as doves.

We've got a lot of slogans. In 2020 you'll have a chance to take action. You'll have a chance to talk this through with like-minded truth-seekers, to figure out TOGETHER what a bottom-up grassroots social movement devoted to preserving each and every one of our autonomies of mind can do. It may be too late to prevent the *SNIP!* that severs the tether between taxation and spending, but it is high time to create *new* tethers, new personal bonds of association, loyalty and mutual support. Yep, it's a Pack. And that's how we survive the Long Now. Together.

Send me an email if you want to help. And spread the word.

Yours in service to the Pack,
Ben Hunt

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