

The Evolution of Political Regimes



Plato, using Socrates as his mouthpiece, wrote the following condemnation of Athenian democracy in his *Republic*:

[The citizens] contemptuously rejected temperance as unmanliness... Insolence they term breeding, and anarchy liberty, and waste magnificence, and impudence courage... The father gets accustomed to descend to the level of his sons and to fear them, and the son to be on a level with his father, having no shame or fear of his parents... The teacher fears and flatters his scholars, and the scholars despise their masters and tutors... The old do not like to be thought morose and authoritative, and therefore they imitate the young... Nor must I forget to tell of the liberty and equality of the two sexes in relation to each other... The citizens chafe impatiently at the least touch of authority, and at length.... They cease to care even for the laws, written or unwritten... And this is the fair and glorious beginning out of which springs dictatorship... The excessive increase of anything causes a reaction in the opposite direction;... dictatorship naturally arises out of democracy, and the most aggravated form of tyranny and slavery out of the most extreme form of liberty.

Plato reduced the evolution of political regimes to a sequence of monarchy, aristocracy, democracy, and dictatorship. In the excerpt above he's commenting on the fraying democracy in Athens that was driven by a widening gap between the rich and poor... sound familiar?

The wealth disparity drove the poor to try and enlarge their cut of the pie through legislation, taxation, and revolution. The rich banded together to protect themselves and their money. This division fractured Athenian society and opened the door for Philip of Macedon to invade and conquer Greece.

Greeks had grown so despondent with their political system that many actually welcomed his conquest. Greek democracy transitioned to dictatorship.

Nearly 300 years later we saw a similar sequence play out in Rome. The Roman Republic from its vast control and exploitation of foreign lands, enormous wealth was created. The new aristocrats curried favor with the leaders in Pompey through bribes and political support. In return, the government began to work for the special interest of the few.

In response, the commoners supported Julius Caesar who took power and established a popular dictatorship. He was then stabbed in the back (literally) by the aristocrats and replaced by another dictator, Gaius Octavius. Democracy became a dictatorship which then became a monarchy. And the political regime wheel continued to spin.

Political regimes like all of nature seem to oscillate between extremes (democracy and autocracy), where each extreme sets the conditions for the inevitable transition towards the other. And how a nation's wealth is divided amongst its people is one of the biggest drivers of this constant transition.

In Will and Ariel Durant's [*The Lessons of History*](#) they write that "inequality is not only natural and inborn, it grows with the complexity of civilization. Hereditary inequalities breed social and artificial inequalities: every invention or discovery is made or seized by the exceptional individual, and makes the strong stronger, the weak relatively weaker."

This fact keeps the political system in oscillation between extremes. Where, again to quote both Durants "...freedom and equality are sworn and everlasting enemies, and when one prevails the other dies. Leave men free, and their natural inequalities will multiply almost geometrically, as in England and America in the nineteenth century under laissez-faire. To check the growth of inequality, liberty must be sacrificed, as in Russia after 1917. Even when repressed, inequality grows; only the man who is below the average in economic ability desires equality; those who are conscious of superior ability desire freedom; and in the end superior ability has its way."

When economic prosperity is relegated to a few, society's desire for political freedom becomes merely a conciliatory afterthought. This arises not so much through the wealthy's direct

exploitation of the poor but rather due to the increasing complexity of the economy and government. This complexity puts an additional premium upon one's superior ability to navigate it. And this further exacerbates the concentration of wealth and political power.

Running under all of this is the Bridgewater style long-term debt cycle. The wealthy are the creditors that hold the assets, the poor the debtors who hold the liabilities. The larger the balance sheet grows, the more complex the economy and the more enriched the wealthy and the more financially strangled the masses become. Until of course, a natural limit is hit... equality pushes back at freedom... and democracy inches towards autocracy.

The Durant's note that when "our economy of freedom fails to distribute wealth as ably as it has created it, the road to dictatorship will be open to any man who can persuasively promise security to all; and a martial government, under whatever charming phrases, will engulf the democratic world."

The interesting political events of late (ie, Brexit, Trump, the rise of nationalist parties in Europe etc) are not causes but rather effects of the debt cycle and the natural evolution of the political sequence as described by Plato, some 2400 years ago.

That is not to say we are going to see a shift to dictatorship or anything of the kind in the near future (we aren't)... nor am I saying that is what Trump in any way represents (he doesn't). Rather, I'm talking about the large tidal forces at work; the historical cogs that are turning and driving this rise in populist sentiment; and which will play out for many years to come.

We are witnessing the natural battle between two opposing forces of political and economic nature unfold. Neither is good or bad, they both simply are. Each is embedded in the evolution of our natural system where equilibrium is merely a concept and constant change is a reality.

It is with that understanding that we must judge and assess things to come. Taken in this context, the current insanity of the world begins to make a lot more sense.

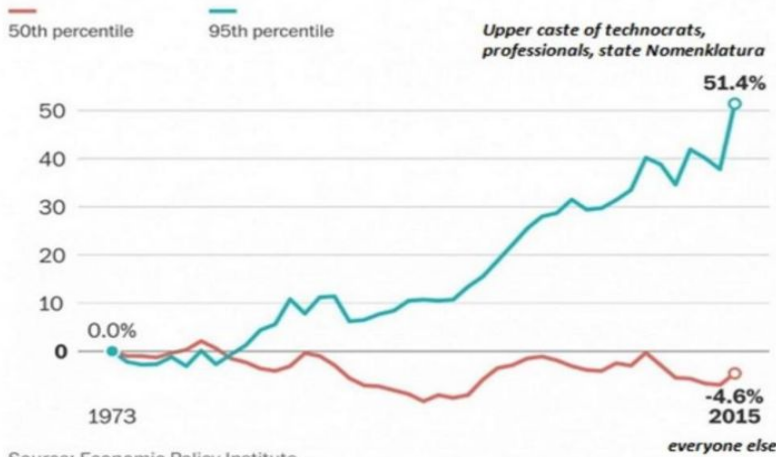
Gundlach put out the following charts that show exactly how we got here.

Wage Gap Discontent



The ever-widening wage gap

The chart below shows the growing change since 1973 to wages among men at the top and middle of the earnings distribution.



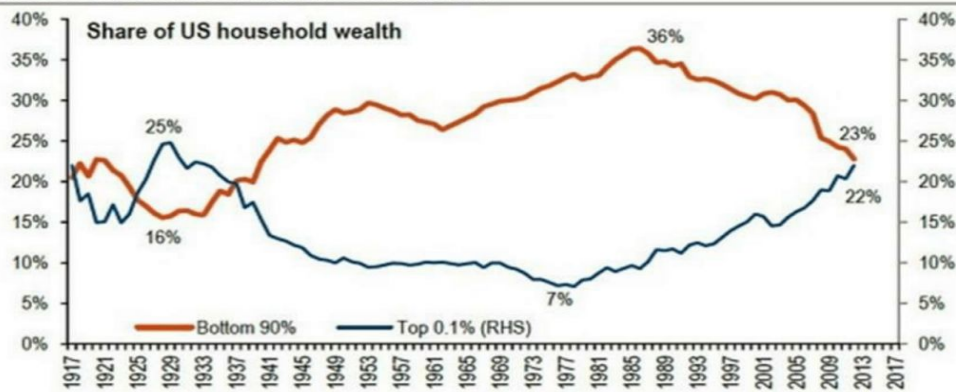
Source: As of 12-31-2015

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Wealth Distribution Gap



Chart 5: Distribution of wealth in the US since 1917

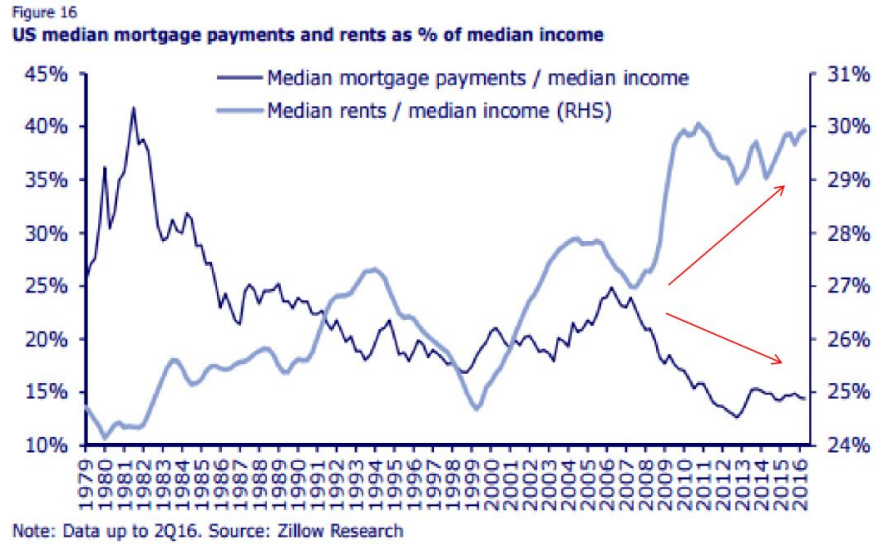


Source: BofA Merrill Lynch Global Investment Strategy, Emmanuel Saez & Gabriel Zucman - 2015

Source: As of 12-31-2015
RHS = Right-hand side

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U.S. Mortgage and Rent Payments Relative to Income



RHS = Right hand side. You cannot invest directly in an index.

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These charts show a completely unsustainable course. The rise in populist politics is *only* just beginning.