

# PHOENIX WORLD VIEWS DIGEST

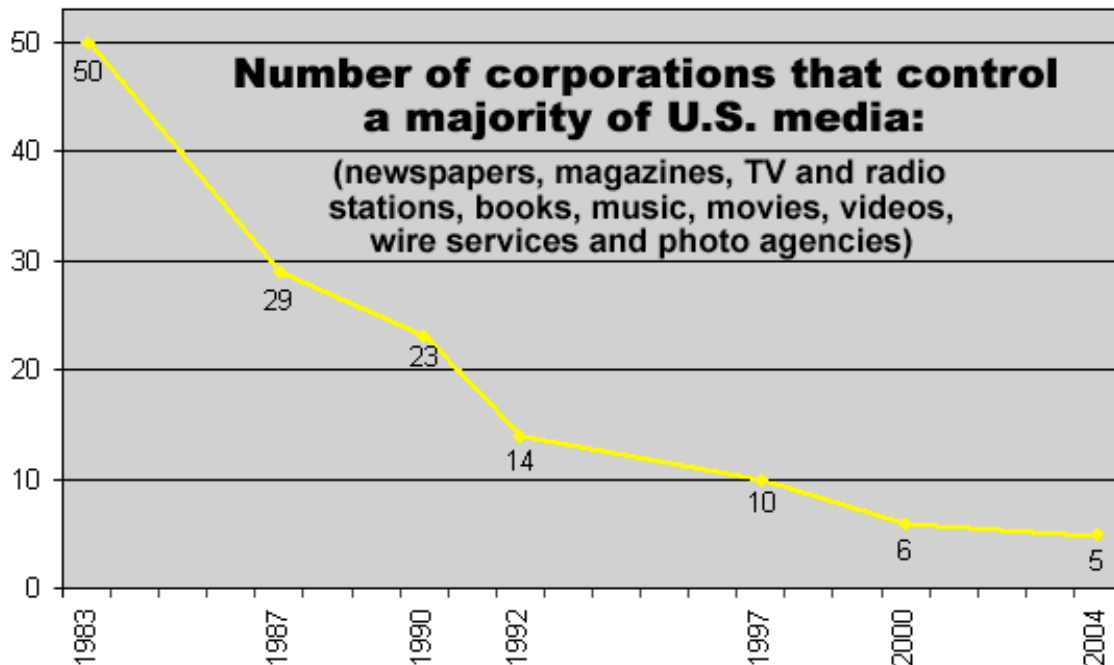
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## Political Lessons from the Walang Kulit, Pt 1

This is the inaugural issue of *The Phoenix World Views Digest*.

The purpose of this newsletter is to apply *independent* investigative analysis to the socio-political-economic structures of the world. The media, for the most part, has become corrupted by special interests, advertising dollars, and corporate relationships (see image below). Consequently, it is no longer a forum for independent commentary or insights.



source: <http://www.corporations.org/media/>

This centralization of media results in most outlets promoting the same “take” or views on a given story. And more often than not, the sources cited in the article come from the Federal Government or someone with close ties to it. The end result of this is that most media coverage ends up being a kind of grand distraction meant to draw the public’s attention from the real issues that determine the US’s economic/ political policies.

The goal of this newsletter is to avoid these distractions and detail the real relationships and socio-economic dynamics that define our reality. In plain terms, I shall be devoting these pages to presenting extensive analysis and insights into the

socio-economic-political structures that comprise “how things really are” in the world.

Today’s newsletter focuses on the US. However, *The Phoenix World Views Digest* is a global newsletter. So I will be traveling extensively as part of my research efforts in order to present how things are “on the ground” (most major media outlets don’t even bother getting first person details as part of their coverage).

So while I am mainly focusing on economic and political issues, I will also be incorporating travel and lifestyle commentary here too. Though this is not an investment newsletter per se, I will be detailing investment ideas and my thoughts on non-mainstream opportunities such as real estate, art, agriculture, wine, rare coins and the like. There are many opportunities to make money in the world outside of the traditional financial markets. I will be detailing some of these opportunities as I come across them in my travels.

In plain terms, this newsletter is meant to help show “how things really work” in the world in an entertaining fashion. My goal is that this is not some monthly “read” for you but a publication that will help change the way you view the world and the opportunities and challenges it presents.

I hope that the insights presented here inspire you to further your own understanding of the socio-economic-political structures that define life. On that note, at the end of each issue of *Phoenix World Views Digest*, I’ll be presenting a list of “Suggested Readings/ Additional Resources” for your review.

I’ll also present an “Action Plan/ Implementing What We Learned” section consisting of exercises meant to further inspire critical thinking based on the insights/ analysis presented in each issue. These are exercises I myself like to do to monitor my own thinking. Feel free to do as much or as little of them as you like.

So without further ado, let’s begin our first issue.

## **Of Shadows and Strings**

When I was a child, in elementary school, an Indonesian Dalang (Shadow Puppeteer) came to my school to perform the art of Wayang Kulit (Shadow Puppetry).

Unlike traditional theater in which human actors are seen visibly in the light, in Wayang Kulit a single puppeteer (the Dalang) sits behind a screen narrating the story while manipulating as many as several dozen puppets so that their shadows play out on the screen.

Because the primary light source is *behind* the puppets, all the audience sees are the puppets' enlarged Shadows. Given the complexity of drama (a master Dalang might have as many as one hundred "characters" in his repertoire, all of them with different voices and mannerisms) the audience has no idea that all of the action is in fact the work of a single individual.

The performance I saw as a child excited me. However, it was when the old man stepped out from behind the theater booth to bow that I was truly stunned. The shock of realizing that one man had controlled everything I had seen was so great that at first I refused to believe it. I spent several days trying to figure out how one person could have had such a wide range of control/ influence in the story.

Traditional Western theater and film involves the "suspension of disbelief"; in order to *believe* the story you must *suspend* your knowledge that the person on screen is an actor performing.

In Shadow Puppetry, the disbelief comes at the *end* of the performance, not during it. Many audience members feel as I did, that there is no way one person could be behind all the action and characters (click the below image to see an example) or go to (<http://www.youtube.com/watch?v=YVN-Df2Hatc>).



This charade is made possible because of where the audience is seated (in front of the stage.) If they were, for example, to step behind the curtain, their perspective would change immediately and the theatrical performance would instead be realized for what it is: a distraction from the real action taking place within the booth where the Dalang frantically moves puppets, changes voices, and narrates the story.

Today, I use the example of the Walang Kulit because I believe it is an apt metaphor for the current socio-political-economic system currently at work in the United States. The vast majority of people fall for the “performance” played out on the major news networks (CNN, Fox, even C-Span) believing that what they see is in fact “news” or “what’s going on” in the world.

I propose that the actual reality is that most of what we are told or see is in fact a giant distraction meant to either maintain the status quo or cover over far more significant issues. A perfect example is the coverage of political campaigns in which candidates fight over social issues (abortion, guns, healthcare, etc.) while ignoring the more pressing systemic concerns (credit bubbles, banking Oligarchies, the massive wealth transfer from US savers to Asia, OPEC, and Wall Street, etc).

We’ll delve deep into this process in a moment.

I believe this occurs because the vast majority of people don’t bother “looking behind the curtain” at the US’s political system. They see the Shadows (the characters and the “story” playing out in front of them), without considering who or what is behind the scenes dictating action.

I make it a point to avoid conspiracy theory and simply stick to the facts. So I am here to tell you that the action IS most assuredly dictated in the US. However, it is not dictated by some secret cabal, but by an elite class of business Oligarchs whose decisions are predicated entirely on self-interest and unbridled greed.

It just so happens that this group has both unparalleled influence and economic clout in terms of the US economy. So when they act in their own interests, their actions have a ripple effect on the rest of us.

However, before examining this class of Oligarchs and their influence in detail, let’s first consider the “story” or distractions that are presented to us.

### **Shadow Issues: Distractions From the Real Distinction**

The classic paradigm for thinking of the “American experience” involves the use of a “melting pot” or “patchwork” metaphor. The basic idea is that the US is a single entity comprised of a wide variety of ethnic/ social groups. This metaphor in turn is used to support the view that the US is a Democracy: a place where “your vote counts” no matter who you are.

However, to me, an examination of the real socio-political hierarchy in the US reveals that this entire “patchwork” ideology is a myth perpetuated in order to convince the general populace that they somehow matter or have an impact on the US political structure and proposed legislative policy.

Indeed, the “patchwork” metaphor itself is founded on a false assumption: that the significant differences between the US citizenry are social or ethnic in nature. Let us consider some of the major issues that “divide us” and how they really distract us from the primary class structure that determines one’s place in the US socio-political structure.

The most common traits or differences emphasized in the media are:

- 1) race
- 2) gender
- 3) political orientation
- 4) religious beliefs
- 5) social views (guns, abortion, etc)

The average person believes these issues to be critical in determining where he or she fits into the fabric of American society. I propose that all of these are actually “Shadow” issues: issues of great emotional import on a personal level, but which distract away from large-scale national issues that impact *everyone* in this country (what’s going on behind the curtain).

Please understand, I am not saying that issues of race or gender or whatever are irrelevant. What I *am* saying is that these issues are used to segment us into smaller groups of people based on specific interests/ personal issues so that we fail to see the BIG issues that dominate *all of us*. After all, it’s much easier to distract people when they’re not united but fighting amongst themselves.

Indeed, the 2008 election illustrated this more than anything. Critical issues were mainly shunned in order to focus on minor-issues such as whether women would vote for Hillary Clinton simply because of Gender or whether Barack Obama was “black” enough to be the first black President.

Imagine how different the political process in the US would be if the following had received mainstream coverage during the ’08 election:

- 1) The US financial system is largely insolvent courtesy of an unregulated derivatives market that is 50+ times the size of the US GDP.
- 2) Real incomes in the US peaked in 1972 and have been in a steep decline ever since courtesy of outsourcing and the US’s shift from a manufacturing economy to a financial services economy (in 2003 nearly \$1 out of every \$3 dollars made by a publicly traded company went to the financial sector).
- 3) Nearly 80% of all bills passed by Congress between 2004-2008 were “suspension bills,”— bills in which only 40 minutes of debate are allowed, no amendments can be made, and only two-thirds majority vote is needed to pass.

Those are just a handful of the issues that concern every American. In contrast, race, gender, political orientation, even gender are Shadow issues: issues that divide us and keep our attention rapt because they elicit strong emotional responses and agendas.

Indeed, let us consider how these Shadow issues segment the population. Below are some data points regarding the various groups created when one divides the US population in terms of gender, race, political orientation and the like.

<u>Issue</u>	<u>Groups Created</u>
Gender	151 million women, 146 million men
Race	228 million White, 46 million Latino, 37 million African American, 13 million Asian, 3 million Indian
Political orientation	Republican 90 million vs. Democrat 85 million (notice this only adds up to a little over half the total US population)
Religious Views	217 million Christian, 3 million Jewish, 2.4 million Buddhist, 1.7 million Jehovah's Witness, 1.4 million Muslim, 1.4 million Agnostic

Just a brief look at the above data reveals that the issues of Race, Gender, and Religion trump Political Orientation in terms of significance. It's also worth noting that each of these "Shadow" issues breaks the US population into one primary majority and several minorities.

Here are the three largest majority groups as a percentage of total US population:

<u>Majority Group</u>	<u>Percentage of Total US Population</u>
White	75%
Christian	71%
Women	50.9%

Now that we have established the Shadow issues used to distract the American people, let's step behind the curtain and introduce the REAL issue that divides the United States population.

## **Behind the Curtain... A Tale of Two "People"**

I propose that the real division amongst the American people is based not on social issues (race, religion, political views) or biological issues (gender). I believe the real divide is based on LAW.

Remember, the US as a political system is entirely based on a complicated legal framework. And while the boundaries erected by race, religion, even gender, have

begun to blur, the legal boundaries are as rigid today as they were the day the Constitution was framed.

With that in mind, by law, the American public is broken into two groups of people:

- 1) Individuals
- 2) Legal entities or businesses<sup>1</sup>

Under American law, a business entity receives the same rights as an individual. It can own property, it has freedom of speech... in fact, a recent Supreme Court ruling permits corporations to directly spend on political campaigns just like individuals. This means that Goldman Sachs and Exxon Mobil are now freely permitted to use their billions in direct donations to political candidates.

However, while having the same rights, individuals and business entities have very different responsibilities. Let's say I go dump a gallon of oil into a local river. If I'm caught doing this, I can face a fine of up to \$2,000, potentially serve six months in jail, and perform up to 200 hours of community service (depending on where I do it).

In contrast, Exxon Mobil dumped 15,000 gallons of oil into Boston's Mystic River last year and was fined \$6 million. That sounds like a lot of money, except it's basically what Exxon makes in three hours of business. No one went to jail. No one spent an afternoon cleaning up a highway or some other civic project. The fine (a joke) was it.

The distinctions between individual and corporate responsibility extend to taxes as well. You or I have to pay taxes on our income according to basic tax law. However, large-scale corporations are regularly permitted to prepare two sets of tax books (one for the public/ SEC, the other for the IRS).

I realize this point sounds a bit "conspiracy theorist" but it is commonly known in the financial community. Consider the Goldman Sachs or GE stories located below.

### ***Goldman Sachs's Tax Rate Drops to 1%, or \$14 Million***

*Goldman Sachs Group Inc., which got \$10 billion and debt guarantees from the U.S. government in October, expects to pay \$14 million in taxes worldwide for 2008 compared with \$6 billion in 2007... **The company's effective income tax rate dropped to 1 percent from 34.1 percent...** The firm reported a \$2.3 billion profit for the year after paying \$10.9 billion in employee compensation and benefits.*

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<sup>1</sup> For the sake of this discussion I am solely focusing on corporations, however, unions and large association groups can also be considered within the "Big Business" category .

<http://www.bloomberg.com/apps/news?pid=20601110&sid=a6bQVsZS2 18>)

### **GE: 7,000 Tax Returns, \$0 U.S. Tax Bill**

*General Electric filed more than 7,000 income tax returns in hundreds of global jurisdictions last year, but when push came to shove, the company owed the U.S. government a whopping bill of \$0...*

[http://money.cnn.com/2010/04/16/news/companies/ge\\_7000\\_tax\\_returns/index.htm](http://money.cnn.com/2010/04/16/news/companies/ge_7000_tax_returns/index.htm))

Many politicians and media outlets like to lament the US's high corporate tax rate. However, according to *SmartMoney* magazine, between 2000 and 2005, US corporate taxes amounted to only 2.2% of US GDP. In contrast the average for the 30 countries that comprise the Organization for Economic Cooperation and Development (OECD) was 3.4% (54% higher).

Regarding tax responsibility, the following article helps explain how Big Business is permitted to get away with such low taxes:

### **Tax Audits of Big Business Are Declining, Study Says**

*An analysis of data from the U.S. Internal Revenue Service by a nonpartisan research group shows that the agency is reducing its auditing of the biggest businesses. The Transactional Records Access Clearinghouse found that the IRS audited one of four of the largest companies in 2009, the lowest rate in more than 20 years...*

<http://www.nytimes.com/2010/04/12/business/12audit.html?ref=business>)

Some of these tax differences are due to the inherent differences between individuals and large-scale business. I, as an individual, am required to remain a citizen of a particular tax jurisdiction. If I choose to remain a US citizen, I have to pay the US income taxes on any earned amount over \$87K even if I reside in a foreign country year-round and make all of my income abroad.

Large-scale corporations, on the other hand, can move their business segments to whichever tax jurisdiction they please. A few years ago Halliburton and other large multinationals moved their headquarters to Dubai drawn by the 0% corporate tax rate there.

Never mind that Halliburton's "headquarters" were only two floors of one building located on Sheikh Zayad road (suspiciously unmarked on the building's directory when I was there) or that it retained its offices in the US. Halliburton, for legal and tax purposes, was officially "headquartered" in Dubai.

I propose that *this* is the real divide in the US: that between individuals and large corporations. The former group comprises the majority of the US population. However, the latter group is granted the greatest freedom. It also holds the greatest political clout due to its massive cash coffers and extensive lobbying efforts.

In this sense, I believe we are truly in something of an Oligarchy in which the political process, proposed legislation, and various regulations are largely controlled by an extremely tiny portion of the population.

So while we're taught in school that the US is a Democracy founded on The Declaration of Independence's proclamation that "*all men are equal*," I believe that the reality is that the same economic imbalances that governed the US's political system at the signing of the Declaration (namely that only wealthy, white landowners could vote) still exist today... though the system is no longer controlled by votes but by money.

And corporations happen to have the most of it.

## **0.1% of the Population Controls a Quarter of Jobs and Nearly Half of all Revenues**

Remember from our earlier analysis that dividing the US population based on issues of race or gender means breaking it into fairly sizable groups. Indeed, even the issue that produces the largest single majority (race) still has a sizable percentage of the population (25%) in the minority category.

In contrast, dividing the US population between individuals and large businesses involves splitting it into a MASSIVE majority (greater than 99%) and an *extremely tiny* minority (less than 0.1%).

And while dividing the population based on race/ gender/ etc. produces a majority group that is generally believed to have greater political clout/ influence, when you divide the US between big business and individuals it is an *extremely small* minority that maintains an exorbitant amount of power.

Let's take a look at the numbers...

According to the latest census data, there are roughly 900 companies that produce annual revenues of \$2.5 billion or more (the largest revenues bracket for any US business). These are the "big boys" in the US economy. And when I say "big," I mean BIG both in terms of size and political clout.

Collectively that these firms:

- Control roughly 25% of US jobs (26 million jobs out of 112 million total).

- Pay out nearly 30% of US salaries (\$1.1 trillion out of \$3.9 trillion).
- Produce 42% of all revenues (\$9.3 out of \$22 trillion).

Control at most large-scale corporations is based on a centralized hierarchy in which the most critical decisions are decided by a select group of individuals. For simplicity's sake, I'm going to use Exxon Mobil's corporate structure as a proxy for large-scale corporate management numbers.

According to its latest 10-K, Exxon has 19 Executive Officers (CEO, CFO, etc). When you add in Exxon's Board of Directors, you're looking at roughly 30 individuals "at the top of the corporate food chain."

Multiplying this number by the number of large-scale corporations in the US (900) we arrive at a number of roughly 27,000 individuals who "call the shots" for large US businesses.

I realize this is very selective analysis, but even if we choose to assume 100 individuals at the top, (rather than 30), AND include smaller US-based companies (those that produce annual revenues of \$500 million or more), we're still talking about only 3,000 companies and 300,000 individuals "in charge."

Now, the total US population is roughly 308 million, so we're talking about less than 0.1% of the population dictating the primary business/ economic/ political decisions.

Now you realize what I meant when I said that issues of race, gender, and the like are Shadow issues that distract us from the real issues of power/control in the US. I believe these Shadow issues elicit strong emotional responses from all of us, but in reality all they do is distract us from the fact that roughly 0.1% of the population controls the US's economic policy in the private sector, as well as in the public sector (via lobbying efforts, campaign donations, etc).

To return to our Walang Kulit (shadow puppetry) metaphor, I propose that big business is the man behind the curtain, the "individual" moving various puppets (the politicians) via monetary-based "strings" (donations and lobbying efforts).

We are told that have a primary role in the election process in the US due to it being a voter-based Democracy. This much is generally true. However, it is large-scale corporations that make the largest donations to political candidates. And unlike individual voters who can only pick *one* candidate in the voting process, Big Business can back both parties financially to insure that whoever wins will look upon them and their ideas favorably.

And they usually do.

To continue reading the second part of this issue, pertaining to the political influence of corporations and their impact on the economic decision-making process in the US, go to:

<http://www.phoenixworldviewsdigest.com/PWVD12.pdf>

Best Regards,

Graham Summers