Some economists are right. Some are wrong. But only one is Jim Davidson, with insights that are original, profound and disturbingly incise. Witty, provocative and clever — Davidson opens the fruit of modern economics, government and politically correct public policy and discovers it is rotten. What's more… eat too much of it… and it may prove fatal. — William Bonner, Founder of Agora Publishing
The Neuroeconomics of Denial: Why Most Investors are Blind to Hints of a Coming Collapse

“Yet it’s clear that there are physical limits to our minds. The consensus on short-term memory, for example, is that most people are limited to retaining just seven items at once, or seven chunks of data — a physical limitation, hard wired into our brains. What if we were similarly hard-wired to effectively manage a limited number of personal relationships? It seems plausible. If memory has a corresponding physical capacity, why wouldn’t other functions of the brain?”

— Mark Sisson, “Are Humans Hard Wired For A Limited Social Circle?”

I begin my analysis of the danger of a coming Dark Age by delving into the interesting question of why everyone does not see this catastrophe looming on the horizon. Why, indeed?

You may even be wondering why it could be useful to you to entertain my unsanctioned vision of a bleak future when it seems so remote from anything that would interest CNBC.

For that matter, I can almost assure you that any member of the editorial board of The New York Times would gladly tell you that my warning of a coming collapse is preposterous.

With all the wealth of sources available in the Information Age, is it not wrong-headed of me to propose that the mainstream view could be dangerously wrong?

Let’s take up that question. The answer lies not in some peculiar defect of information technology. Rather, it has its origins in prehistory — during
the Hunter-Gatherer stage that our ancestors survived before agriculture origi-
nated some 10,000 years ago.

Let me explain.

The human experience is at least 250,000 years old. Anthropologists be-
lieve that anatomically modern humans initially lived in tight-knit groups of
about 150 individuals. However, that seemed to be no more than a random
generalization pieced together from excavations of archaeological sites and
observation of current Hunter-Gatherer groups — until a little over 20 years
ago. Then in 1992, Robin Dunbar, a British anthropologist, had a penetrating
insight into the physical basis of the coincidence that primal human tribes
were limited to no more than 150 individuals. Dunbar theorized that the num-
ber of members in primitive human groups, like the number of members in
non-human primate “grooming cliques,” is determined by the size of the ne-
ocortex region (which is involved in spatial reasoning and conscious thought)
of the brain.

By extrapolating from the size of the neocortex for 36 separate species
of monkeys and apes, Dunbar could accurately predict the average group size
for each of these species. Applying these same extrapolation techniques to
humans, he calculated that the maximum “mean group size” for humans was
150, with an “intimate circle size” of 12.

Consider the comment quoted from Mark Sisson at the top of this chapter.
Sisson is an expert on the primal dimensions of modern life. He points to the
well-supported view about the limitations of short-term memory. This under-
scores why I am able to predict with a high degree of confidence that your
telephone number will have seven variable digits, rather than 17 or 71. Even
if you possess an extraordinary, photographic memory that would permit you
to recall a 71 digit phone number, your neighbors and others who would be
called upon to reach you are in all probability limited to seven digits. That’s
why almost all telephone numbers on the globe are limited to seven digits.
When they stretch to 10 or 11 digits, it is invariably with the addition of area
codes and country designations to the unique seven-digit number.

Neuroscientists have other notions about the carryover effects of primal
life on contemporary humans. One of these, as we explore below, is not only
that the structure of our brains informs the size of the primal human tribe, but
it also helps determine our attitudes toward shared perceptions and our will-
ingness to think for ourselves.
Let’s face it. Fred Flintstone would not have been able to kill a mastodon on his own. And if he had, through some lucky turn, he would hardly have been able to carry it home by himself. For a quarter of a million years or more, the survival of our ancestors depended upon close cooperation within a tight-knit tribal group of 150 or fewer persons.

Under those conditions, independent or iconoclastic thinking may have been a threat to survival. So at a minimum, we are probably descended from 10,000 to 12,000 generations of anatomically modern human beings for whom thinking independently had negative survival value.

Little wonder then that people today show a strong disposition to trim their opinions to match those of the group. In the bad old days, when survival depended upon hunting mega fauna with a close-knit tribe, having hunters along who thought for themselves could well have led them to act independently at crucial junctures, and thus jeopardize the hunt.

Fast-forward to today, and that could go a long way toward explaining why only a fraction of the educated population of North America (or anywhere else for that matter) is prepared to think for themselves, even where matters of grave importance are involved.

A man who points towards the explanation for this is Gregory Berns, an economist and neuroscientist who holds the Distinguished Chair of Neuroeconomics in the Department of Psychiatry in the Medical School, Emory University in Atlanta, Georgia. (“Neuroeconomics” is the study of how neurobiology places constraints on the decisions people make.) Dr. Berns is the author of “Iconoclast,” a book that suggests that the wiring of most people’s brains keeps them from thinking independently.

According to Dr. Berns, iconoclastic thinking is a minority trait. Most people were born to gravitate toward team thinking. The brain is hard-wired to conform. He points to a study in which isolated individuals tested on their own determined the correct answer to a question 86% of the time. But when put into a group and told that the group had come to the wrong answer to that question, almost a third of the subjects (31%) abandoned the correct answer in order to conform with the prevailing group opinion.

Or to put it another way, the percentage coming to the wrong answer more than doubled — from 14% to 41%.

This interesting experiment shows more than it might seem at first look. The point is that most people’s brains are wired to prefer conforming conclusions.
Presumably, the degree to which the group-think impulse expresses itself depends upon the nature of the group and what is being tested in any given circumstance.

Consider the neuroeconomic dilemma of the citizen contemplating the possible trajectory of the national economy over the next two decades.

What does he know?

He certainly knows the prevailing dogma that the United States is the richest, most successful country on earth. He has a choice between formulating a conforming opinion or veering off in an independent direction — which almost inevitably requires a considerable effort of iconoclastic research and thinking for yourself. This is exactly the setting where the hard-wired bias toward being a team player is most likely to inform expectations.

As a matter of interest, the unwelcome revelations from accountants and actuaries plumbing the books of the U.S. government seem to have had virtually no impact on popular opinion. This is completely contrary to the effect they should have.

A Debt That Will Never be Repaid

Too often, ordinary citizens tend to ignore the logic of double-entry bookkeeping.

In pure logic, the revelation that the U.S. government has unfunded liabilities and debts with a present value of somewhere between $90 trillion and $205 trillion (or almost 1,500% of GDP) implies that Americans, depending upon their specific dealings with the U.S. treasury, could be not the richest people on the globe, but more likely the poorest.

Again, I’m reminded of the charming story that Donald Trump told of himself. A couple of decades ago during the savings and loan crisis, Trump was walking with his girlfriend of the moment on the Upper East Side of New York when the couple encountered a tattered street person begging for alms. Trump shocked his companion by telling her that the street person was worth $1 billion more than he.

“But he doesn’t look as though he has a penny,” she protested.

“He doesn’t,” Trump replied.

I am convinced that the neural bias toward conforming opinion goes a long way toward explaining the apparent oblivion of the majority of Americans to
the dire fiscal prospects of the U.S. I also think it helps explain the alacrity with which the public seems to accept blatant lies about current economic performance, particularly those that hinge on the mis-measurement and under-reporting of inflation.

Accept it. The U.S. government has been lying to you for decades.

The government and politicians have proven adept at hijacking your in-born inclination to conform your thinking to that of the small tribal group.

In effect, politicians use your primal inclination to trim your opinions to those of the group to manipulate your perceptions of the economy in ways that jeopardize your future.

This was underscored by news reports that politicians in both major parties involved in chronic wrangles over the yawning federal deficit had concurred on steps to save future trillions by further fiddling inflation adjustments on Social Security, and federal pensions. Already, total federal outlays for Social Security are only half what they would have been if inflation were still reported by the same methodology used during the Carter Administration.

In effect, the political establishment has agreed that they can correct what ails the country by compounding the remorseless lies they have already told you.

Don’t believe them. Now, more than ever, it is time to think for yourself.

**The Income Fraud**

The appearance of higher incomes is largely an illusion.

Contrary to the institutionalized pretense of the government, and their lackeys among the Keynesian economists, decades of remorseless government spending out of an empty pocket have impoverished Americans and left most people facing a future they cannot afford.

A major explanation for Obama’s re-election in the face of plunging real income is the simple fact that the United States has been so thoroughly impoverished that the only prospect for most of the former middle class facing the future is more income redistribution.

With real wages plunging, it doesn’t take a crystal ball to see that most Americans have very little prospect of enjoying a better life if they must pay for it from their own resources.
Consider this frightening fact: 54% of U.S. retirees have less than $25,000 in savings. This amounts to less than their projected out-of-pocket costs for Medicare alone. According to the Employment Benefit Research Institute, Social Security is “the only source of income for one-quarter of current retirees, and the primary source for nearly three-quarters. That dependence will only grow for baby boomers.”

Do you wonder why politicians shy away from reducing the unfunded burden of entitlements? Don’t.

The inflation lobby has managed to create a situation where the vast majority of Americans have no hope of retirement. And this did not begin with the collapse of Lehman Brothers and the bursting of the housing bubble.

The Slow Decay of America’s Middle Class

Let’s face it, the American middle class is practically kaput. The average American family has only about $50,000 in savings. And that number is skewed to the upside by the increasingly atypical top 10%.

You almost have to be in the top 10% of the income distribution in the U.S. to live a decent life today. And even that is likely to go away as future Presidents raise taxes on “the rich” to predatory levels. But whether you’re a retiree hoping to supplement your income, a wild optimist hoping to retire, or a younger, productive person facing the prospect that much higher taxation and runaway inflation will deprive you of anything you are able to earn, it is time to transcend denial and take a cold, hard look at the situation you face. If you do, you’ll see that there is practically no chance for you to enjoy prosperity in the future by going along with the gag.

In historic terms, the situation you face is probably as hopeless as that of the Roman middle-class starting from the time of Diocletian when the decision was made, as described by The Cambridge Ancient History, “to squeeze the population to the last drop.”

A ruinous decline in living standards lies ahead in the United States, another case of the decline and fall of a great power that remorselessly overspent the available resources, relying upon predatory taxation and concerted inflation to preserve the state at the expense of the people.

Notwithstanding the pronounced cognitive bias of most people to conform to “group think” and go along with the gag, there is a limit to the malle-
ability of the public when a bankrupt government is dragging its citizens along into bankruptcy as well.

No one knows where the inflection point lies when the government will choose even more overtly despotic forms of repression and control. But I doubt that we’re talking about something as far away as 2084.

**Why Financial Repression Won’t Work**

You have heard much since 2010 about “financial repression,” the government policy of holding interest rates far below the rate of inflation. This deprives you as a saver of income you would otherwise have received.

To keep abreast of the deterioration of the U.S. government’s balance sheet, real interest rates would have to be so far negative that they canceled debt equal to 30% to 40% of GDP annually.

There is a word for that. Hyperinflation.

There is a fine line between “financial repression” and more thoroughgoing repression that limits the freedom of your person as well as that of your money.

**The U.S. Government is Closing the Exits**

(I wrote this in September 2010 while in Brazil scouting for opportunities in a rare economy that was enjoying robust growth at that time.)…

To illustrate, consider this story — which I well know, as it happened to me. I write from Brazil, where I have been following my own advice by investing my time and money in a more prospective economy.

Knock on wood, I seem to have several fortune making projects on the go. To do this, I’ve had to send money to Brazil and visit at least 51 times.

My success owes absolutely nothing to the U.S. government. In fact, the overbearing bureaucracy of a repressive surveillance and security state made it extremely difficult for me to make an investment on which I have earned a 1,426% gain to date. (Which is equal to over 5000 years of interest on U.S. treasury bills at their current, invisibly low rate).

As you may know, one of the strong policy thrusts of the Obama administration has been the promulgation of onerous regulations designed to prevent American citizens from creating or maintaining financial assets abroad. These
regulations don’t make it illegal, per se, for an American to open a foreign bank account. Rather, their aim is to impose regulatory burdens on foreign banks that are so onerous as to make it economically irrational for them to entertain American clients. I have been told by foreign banks that closed my accounts that meeting the regulatory impositions from the US government for permitting an American citizen to hold an account costs $18,000 annually.

A little more than a year ago, I learned to my surprise that Obama is using the same techniques to discourage American banks from allowing their customers to wire money to other jurisdictions. When I attempted to wire funds to support what seemed to be a very prospective investment in Brazil, I was amazed to learn that a bank with which I had been dealing for decades refused to complete the transaction.

Why?

I was told by the president of the bank that regulators had threatened his institution with fines of up to $100,000 for permitting international wire transfers that were not supported by voluminous documentation that the bank had no systems, nor personnel to manage. I was stuck. It certainly was not a question of my proposing to use the money for nefarious purposes.

But my money was getting the same kind of bureaucratic scrutiny before it could travel that you get when you have to take off your belt and shoes at the airport. After much wheedling and cajoling and the patient drafting of long memos to the file, I was finally able to prevail on the bank to proceed with the transfer. As a result, the transaction was gratifyingly profitable.

I don’t know whether the bank had to pay a fine or suffer other bureaucratic recriminations for allowing me to conduct business abroad. However, I do know that “financial repression” is edging ever closer to becoming just “repression.” Full stop.

This experience made obvious to me that the law in its majesty was making it onerous for anyone but billionaires to do business abroad. In many cases, banks will balk at wiring money abroad for investments unless they make so much profit from handling your account that it will cover the fines and other costly regulatory headaches that they may face from allowing you to exercise your rights. As an entrepreneur.

And it is not just a question of whether they will let you send your money abroad. Don’t forget that a big part of successful foreign investment is trav-
eling to other countries, making contacts and realizing opportunities. If you were stuck at home, like an East German pinned in behind the Berlin Wall, you could never launch a fortune making enterprise in Brazil, or any other jurisdiction.

I believe in the not-too-distant future that you will need special dispensation from the government to travel abroad. In fact, the U.S. Senate passed legislation in 2012 to enable the IRS to seize your passport if you owe back taxes. A bill titled “Transportation Research and Innovative Technology Act of 2012” (SB 1813 Sec. 40203), would have given the IRS the power to revoke, limit, and/or deny passports to citizens who owe back taxes.

I also had the pleasure of enjoying a $416,000 tutorial on just how easy it is to have a gigantic tax due to the IRS through no fault of your own. In March 2012, my wallet was stolen. Presumably, that is when some cretin stole my identity and thereafter filed an entirely fictitious tax return with the IRS using my Social Security number.

I suppose he was fishing for a refund. But the return included no details from the various brokerage accounts and banks that file information notices with the IRS. Consequently, I was buried in fines and penalties for “underreporting,” which I am still trying to sort out.

If section 40203 of the “Transportation Research and Innovative Technology Act of 2012” had passed the House, I probably would not be in Brazil today. I would have lost the business opportunities I am pursuing now simply because someone stole my identity.

That said, it is not worth delving into the quirks and injustice of this particular piece of legislation, except to note that it illustrates the authoritarian measures the U.S. government will pursue to compel you to do its bidding.

It is almost comically obvious that one of the next steps in the intensification of “financial repression” will be laws to seize part of your retirement assets and forcibly invest them into government bonds, under the guise of “protecting” your retirement.

In my view, it is already “baked in the cake” that U.S. living standards are destined to take another deep notch down. If nothing else, the institution of ObamaCare guarantees that increasing numbers of the formerly middle class will be pushed into part-time employment.
Full-Time Jobs: An Endangered Species?

The coverage for mandated healthcare insurance in Obama’s Affordable Care Act kicks in for employees working more than 30 hours a week. Consequently, employers cut hours rather than comply with the mandate to provide costly benefits for workers who exceed the 30-hour threshold.

As a result, many full-time jobs are being converted into part-time work. For example, almost immediately after ObamaCare passed, a Taco Bell in Guthrie Oklahoma announced it “is cutting full-time employees’ hours to avoid mandates under the new affordable care law.”

National restaurant chains including Applebee’s, Olive Garden and Denny’s have also joined the parade of employers cutting work hours. It isn’t just downscale chain restaurants that are curtailing the workweek. In Ohio, Youngstown State University announced a 29 hour per week mandate — warning employees that they would be fired if they work more than that amount.

News reports indicate that the state of Virginia was trying to force “potentially tens of thousands of public sector employees in the state to work fewer hours so the government can avoid providing them healthcare.”

Prior to ObamaCare, the average, full-time employee in the U.S. worked about 39.5 hours weekly, which totals about 2,050 hours a year. And a 2010 study conducted by the Center for American Progress found that many American men born after 1956 considered a 40-hour week to be a “part time” endeavor.

That is probably because it is increasingly difficult for a man with real weekly earnings at an Eisenhower era vintage of $185 (in 1982–1984 constant dollars) to support a family. Still, in his zeal to increase the proportion of Americans that are totally dependent on government handouts, Obama has set in motion incentives that will force many employers to adopt the French workweek.

The Francification of America is Under Way

The “French way” has been to tolerate one of the world’s shortest workweeks, with an average of 1,439 hours put in annually, according to an OECD study. That is a little more than 27 hours per week. The results for French work culture were succinctly described by Corinne Maier, who works for a state-owned, French electricity company. She has written a book arguing that the
French attitude to work is to do as little as possible. She says, “The aim is to keep your job without working.”

The trouble is that shirking does not pay its way in a competitive world where Turks work almost 50 hours a week and South Koreans only slightly less.

A shorter work week doesn’t bode well for the future of U.S. tax rates.

In the 19th century, the famous English economist David Ricardo proposed the so-called “Equivalence Theorem.” It holds that consumers will internalize the government’s “budget constraint,” and recognizing that they will have to pay higher taxes in the future when government increases its liabilities, will put aside savings to pay for the future tax rise.

This may have seemed a reasonable proposition 200 years ago, but today’s total U.S. government debt and liabilities are so vast that they comfortably exceed the total GDP of the world. That being the case, there is no way that even the wealthiest taxpayer could make an adequate provision for them.

To me, it would seem more rational to stop acting as if you were a member of a close-knit, primal tribe and declare your cognitive and economic independence.

And get out while you still can.

To read the rest of The Age of Deception, simply click here to claim you free copy.