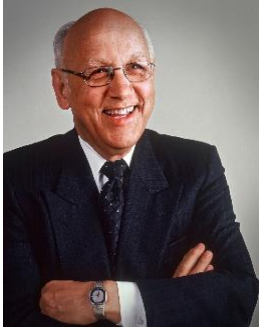


CASWELL CORPORATE COACHING COMPANY

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WILLIAM E. CASWELL

Winners and Losers

In a recent scientific magazine¹ an explanation was given about why some people end up with so much money and others with very little. It has much less to do with ability, than with a predictable mathematical process. Extremes of rich and poor have dominated every society since the beginning of recorded human history; a proven mathematical analysis explains why this must be so. How can the average businessperson cope with this apparent 'law'?

Bill Caswell is an experienced coach of CEOs and senior executives around the globe. He is the author of 26 books, written, by a CEO for CEOs.

CCCC Events

March 2020

Online courses

- Personalities (PAVF)
- Getting it Done (OAK)
- Painless Meetings

22-23 April 2020

Planning
Benson Centre
Cornwall ON, Canada

21-27 May 2020

Practical MBA
The Business Inn
Ottawa ON, Canada

3-4 August 2020

Planning
Holiday Inn, Estampida
Guadalajara Jal., Mexico

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Among the contributors to the mathematical analysis were professors from Boston University, Tufts University (Boston), University of Maryland, Saha Institute of Nuclear Physics (India), and the Sorbonne (Paris).

The result of the analysis was an ability to predict the financial situation in the U.S. and Europe within less than 1% (0.3%, to be precise), year by year, in the period between 1989 and 2016.

The origins of inequality have long been hiding in plain sight – available through a mathematical understanding. (For those CCCC practitioners strong in Chaos Theory, these findings parallel the irregular, but predictable, clogging of oil pipelines, the ups and downs of cotton prices, the swelling of the lynx population in northern Canada, etc.)

We begin the mathematical exercise with a few basics including the 'yard sale' model where fair exchanges are made by two equally positioned people both expecting to benefit from the transaction for their own purposes. The mathematical model starts with the premise that 1,000 people would be making fair transactions. Each person has an initial amount, which to avoid observer conflict, assumes all 1,000 people start with the same wealth. (But the analysis shows that it doesn't matter what amount of wealth each participant begins with; the fundamental results of inequality will turn out the same.) To be clear, we begin by assuming that nobody has an advantage of any kind. Another basic premise is that people have an aversion to going broke, so they will only spend a portion of what they have. This is a self-imposed limitation that most people instinctively observe in their economic life. A coin flip decides who is buying and who is selling (thereby introducing a Chaos factor).

We can take these 1,000 individuals making many transactions, millions of transaction or billions of transactions to see what falls out. The result, after a large number of transactions, is that one person ends up as an oligarch, holding practically all the wealth and the other 999 end up with virtually nothing. It does not matter how much wealth people started out with. It does not matter that all the coin flips were absolutely fair. Any single

¹ Scientific American, November 2019, p70, "The Inescapable Casino", Bruce M. Boghosian

CCCC Events continued

5 August 2020

*Best Kept Management
Secrets seminar (Spanish)*
Fiesta Americana Hotel
Punto Sao Paulo
Guadalajara Jal., Mexico

17-19 August 2020

Planning
Alamo Industrial Parque
Guadalajara Jal., Mexico

person in this scenario could have become the oligarch – in fact, all had equal odds if they began with equal wealth.

The very first coin flip transfers money from the buyer to the seller, setting up an imbalance between the two. And once there is some variance in wealth, no matter how minute, succeeding transactions will systematically move a trickle of wealth upwards, amplifying inequality until the system reaches a state of oligarchy. In terms of the actual transactions, it is like a casino, where you win some transactions and you lose some transactions, but the longer you stay in the casino, the more likely you are to lose.

When the trickle of wealth exchange is multiplied by 7.7 billion people on the planet making countless transactions every year, the trickle becomes a torrent.

This can be offset somewhat by a wealth tax where money is moved from the rich to the poor – that is, mathematically speaking, from those above the mean to those below the mean. (Because levels of inequality become extreme, far more people would receive than would pay.)

The mathematical situation is exacerbated because in real life, the wealthy have systemic economic advantages such as a lower interest rate on loans and better financial advisors, whereas the poor suffer systemic economic disadvantages such as payday lenders and a lack of time to shop for the best prices.

The picture described above was accelerated, for everyone to see, by the nature of the breakup of the Soviet Union in 1991 whereby 10 of the 15 former Soviet republics became oligarchies, almost overnight.

The mathematical model above introduced a factor for those with negative wealth, the 10.5% of the U.S. population which was in a net negative position because of mortgages, maxed-out credit cards, student loans, and other factors.

The final conclusion is that the “natural” wealth direction in a free economy is not wealth flowing downward as usually theorized by economists (and often attributed to Adam Smith), but, rather, wealth trickling upwards towards a complete oligarchy. It is only redistribution that sets a limit on inequality.

The model assumes symmetry but if chance breaks the symmetry such as a person gaining a financial inheritance, or a very large salary, their direction towards wealth accumulation is accelerated.

The social and business lessons from this analysis are several. The first is the huge role that luck plays in economic results. Secondly, wealth accumulation is not solely due to the cleverness and industriousness of the individual. Third, the negative stigma attributed to poverty is completely unjustified. Fourth, as stated above, a carefully designed mechanism for redistribution can compensate for these natural (mathematical) unidirectional wealth flows from the poor to the rich.

Three conclusions for the businessperson are: (a) Be aware that poverty is as much a mathematical state as a social one; in either case it is a situation you can choose to do something about – use your F to share. (b) In order to get the wealth you feel you deserve and need, keep on working diligently – use your P and A. (c) Be willing to take risks to build up your cash position – use your V.

Bill