The Structural Dynamics of Oligarchic Capture in Currency-Based Systems

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Edition of 2 November 2026. The latest version is always at worldintransition.net/explore/research/oligarchic-capture/rigorous/.

A Formal Mathematical Model

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Abstract

This paper develops a formal model demonstrating that oligarchic capture — the concentration of wealth and institutional power in a small group — is not an aberration but a structural attractor of currency-based economic systems. Beginning from a two-agent wealth dynamics framework incorporating reinforcement, stochastic shocks, saturation, and poverty traps, the model is extended to multi-agent populations, behavioral adaptation, institutional feedback, and network effects. We show that the resulting system naturally organizes into a three-zone distributional structure (poverty basin, mobility band, saturation plateau) that becomes increasingly brittle over time. We derive formal conditions for intervention effectiveness and demonstrate that single-parameter reforms are structurally insufficient to alter the system's long-run trajectory. The model identifies a set of necessary structural design constraints for viable non-oligarchic systems and outlines implementable transition pathways grounded in the dynamics themselves.

1. Introduction

Economic inequality is often treated as a contingent outcome — the result of specific policies, historical accidents, or individual differences. However, persistent empirical regularities suggest that wealth concentration arises systematically under structural conditions that are common to all currency-based economies (Piketty, 2014; Stiglitz, 2012).

This paper proposes a different framing: inequality is not incidental but an *attractor state* of systems that permit accumulation and dominance reinforcement. Conversely, egalitarian configurations represent an alternative attractor under different structural constraints — an empirical reality demonstrated by anthropological evidence from immediate-return societies (Boehm, 1999; Woodburn, 1982).

The central contribution is a unified dynamical model that traces the emergence of oligarchic structure from first principles, through distributional organization, behavioral reinforcement, institutional capture, and systemic instability — culminating in a formal analysis of intervention conditions and alternative system design.

2. The Core Wealth Dynamics Model

2.1 Two-Agent Formulation

Consider two agents with wealth levels $W_1(t)$ and $W_2(t)$. Each agent's wealth evolves according to a multiplicative process with five structural terms:

$$W_i(t+1) = W_i(t) \cdot \left(1 + g + \alpha W_i(t) - \beta W_i(t)^2 - \frac{\delta}{W_i(t) + \varepsilon} + \sigma_i \eta_i(t)\right)$$

where:

- g — baseline growth rate accessible to all agents

- α — reinforcement coefficient: the rate at which existing wealth generates additional growth advantage
- β — saturation coefficient: damping at high wealth due to diminishing returns, complexity costs, and structural limits
- δ — poverty penalty: fragility at low wealth arising from compounding debt, fee barriers, and exclusion from stabilizing institutions
- ε — regularization constant preventing division by zero
- σ_i — volatility exposure of agent i
- $\eta_i(t)$ — independent stochastic shock drawn from a zero-mean distribution

2.2 Growth Function Analysis

Suppressing the stochastic and poverty-trap terms, the deterministic growth function is:

$$G(W) = g + \alpha W - \beta W^2$$

This is a concave quadratic in W. Growth is maximized at the turning point:

$$W_{\text{peak}} = \frac{\alpha}{2\beta}$$

Below W_{peak}, reinforcement dominates and growth accelerates with wealth. Above it, saturation dominates and marginal returns decline.

2.3 Equilibrium

A steady state occurs when $G(W^*) = 0$:

$$g + \alpha W^* - \beta (W^*)^2 = 0$$

Solving by the quadratic formula:

$$W^* = \frac{\alpha + \sqrt{\alpha^2 + 4\beta g}}{2\beta}$$

Key result: Saturation sets a ceiling *scale*, not an equality condition. Two agents can both reach finite equilibria and still exhibit profound inequality if they arrive at different equilibria or if path dependence locks in early divergence.

2.4 Stochastic Divergence

Under multiplicative growth with stochastic shocks, the expected log-growth rate for an agent is:

$$\mathbb{E}[\ln W_i(t+1)] \approx \ln W_i(t) + g - \frac{\sigma_i^2}{2}$$

Even with identical nominal growth rates g, if volatility differs ($\sigma_1 \neq \sigma_2$), the agent with higher volatility experiences lower expected log-growth. This means differential fragility alone — without any difference in reinforcement — generates systematic divergence.

2.5 Poverty Trap

Near zero wealth, the poverty-penalty term $\delta / (W + \varepsilon)$ dominates, producing negative expected growth:

$$\text{As } W \to 0: \quad \frac{\delta}{W + \varepsilon} \to \frac{\delta}{\varepsilon} \gg g + \alpha W$$

The net growth rate becomes negative. Low wealth leads to further decline, creating an absorbing region from which recovery without external intervention is structurally unlikely. Combined with high volatility at low wealth, this produces a

poverty trap with two reinforcing channels: negative drift and stochastic elimination.

3. Multi-Agent Extension and Distributional Structure

3.1 Generalization to N Agents

For N agents indexed by $i = 1, \ldots, N$, each follows the same wealth dynamics with competitive interaction:

$$W_i(t+1) = W_i(t) \cdot \left(1 + g + \alpha_i W_i - \beta W_i^2 - \frac{\delta}{W_i + \varepsilon} + \gamma \sum_{j \neq i} A_{ij}(W_j - W_i) + \sigma_i \eta_i\right)$$

where A_{ij} represents network connections and γ controls competitive pressure. Under multiplicative growth with an absorbing boundary at $W = 0$, the wealth distribution converges to a Pareto-tailed form.

3.2 Emergence of a Three-Zone Structure

The multi-agent system naturally organizes into three qualitatively distinct regions:

1. **Poverty Basin.** Where $\delta / (W + \varepsilon) > g + \alpha W$. Expected growth is negative. Recovery is structurally unlikely. The approximate lower boundary is:

$$W_{\text{lower}} \approx \frac{\delta}{g} - \varepsilon$$

2. **Mobility Band.** The intermediate region where agents can move upward or downward depending on shocks and reinforcement. This zone is dynamically unstable — it generates inequality by amplifying small differences.
3. **Saturation Plateau.** Where $\beta W^2 > \alpha W$, growth decelerates. Agents here are buffered against downward shocks and exhibit high positional stability. The plateau center is approximately W^*.

3.3 Distributional Evolution

Let $P(W, t)$ denote the wealth distribution at time t. Its evolution is governed by nonlinear drift (from α, β, δ), stochastic diffusion (from σ), and boundary effects at $W \geq 0$.

Over time:

- The mobility band thins as agents are sorted upward or downward.
- The poverty basin absorbs increasing population mass.
- The saturation plateau stabilizes a small group at high wealth.
- The Gini coefficient $G \to 1$, indicating extreme inequality.

Inequality thus does not grow uniformly. It *crystallizes* into a structured hierarchy: a stable upper class, a fragile and shrinking middle, and a trapped lower group.

3.4 Stability Asymmetry

Stability is not distributed equally across the three zones:

- **Top (plateau):** Proportional fragility $\sigma / W \to 0$ for large W. Transition probability $P(\text{down}) \to 0$.
- **Middle (band):** Both $P(\text{up})$ and $P(\text{down})$ remain high. This is an unstable transitional region.
- **Bottom (basin):** $\delta / (W + \varepsilon)$ dominates, making $P(\text{up}) \to 0$. This is an absorbing or near-absorbing region.

The society is thus stable *at the top* without being stable *as a system*. Local stability of elites does not imply stability of society.

4. Systemic Instability and Tipping Points

4.1 Visible Stability vs. Dynamic Stability

A system can appear outwardly stable — institutions functioning, markets operating, the top and bottom seemingly fixed — while becoming dynamically unstable underneath. The distinction is between *visible stability* (the outward arrangement appears unchanged) and *dynamic stability* (perturbations are damped rather than amplified).

4.2 Fragility Accumulation

As the mobility band narrows, systemic resilience declines. More of the population becomes one shock away from downward mobility. Recovery times lengthen. The system's capacity to absorb perturbations concentrates at the top rather than being distributed through the middle.

Mathematically, the system approaches a regime where the damping ratio of perturbations crosses zero:

$$\frac{d}{dt}\mathrm{Var}(W,t) > 0 \quad \text{and} \quad \frac{d}{dt}P(\text{downward}) > 0$$

When perturbations cease to decay, small shocks — inflation, job loss, health crises — propagate rather than dissipate.

4.3 Middle-Class Erosion as Diagnostic

The model identifies middle-class erosion as a key precursor signal of systemic instability. The middle is not merely another wealth band — it is the region that provides resilience. When it narrows, resilience concentrates at the top, fragility becomes widespread below, and institutions lose their stabilizing base.

4.4 Regime Classification

The model identifies four broad system regimes:

1. **Mobility-dominant:** Enough population in the mobility band to absorb shocks.
2. **Structured inequality:** Three zones coexist with limited residual resilience.
3. **Brittle oligarchy:** Upper plateau stable, middle thinning, lower basin expanding.
4. **Transition or collapse:** Shocks or parameter shifts force rapid reorganization.

5. Intervention Analysis

5.1 Taxonomy of Interventions

Interventions map directly onto the five structural terms of the model:

Parameter	Mechanism	Policy examples
g	Growth modulation	Fiscal stimulus, infrastructure, productivity policies
α	Reinforcement attenuation	Progressive taxation, anti-monopoly, limits on capital-derived privilege
β	Saturation enhancement	Wealth taxes, estate taxes, structural caps on accumulation
δ	Poverty penalty reduction	Universal basic income, healthcare, housing security, debt relief
σ	Shock mitigation / equalization	Social insurance, stabilization policies, financial regulation

5.2 Why Single-Parameter Interventions Fail

A central result of the model is that isolated interventions are structurally insufficient:

- **Increasing g only:** Growth applies multiplicatively, benefiting higher-wealth agents more in absolute terms. Divergence continues or accelerates.

- **Reducing δ only:** Improves survival at the bottom but does not constrain accumulation at the top. The inequality structure persists.
- **Reducing α slightly:** Slows divergence without eliminating it. The long-run outcome is unchanged; only the timescale shifts.
- **Redistribution (transfer flow τ) alone:** Even strong redistribution fails if α remains high, σ remains asymmetric, and δ remains positive. The richer agent retains reinforcement advantage, lower fragility, and easier recovery.

5.3 Redistribution as Dynamic Flow

Define a continual redistribution flow:

$$T_i = \tau(W_i - W)$$

where $\tau > 0$ is the redistribution intensity and W is the mean wealth. Total transfers sum to zero — redistribution does not inject wealth; it reallocates within the system.

To oppose reinforcement-driven divergence, the redistribution rate must satisfy:

$$\tau \gtrsim \alpha \cdot \Delta W$$

Since the gap ΔW grows with wealth concentration, a fixed weak transfer is insufficient if reinforcement grows with wealth itself. Anti-oligarchic design generally requires *adaptive* rather than static redistribution.

5.4 Combined Intervention Regime

The intervention-modified wealth equation becomes:

$$W_i(t+1) = W_i(t) \cdot \left(1 + g + \alpha' W_i - \beta' W_i^2 - \frac{\delta'}{W_i + \varepsilon} + \sigma_i' \eta_i\right) - \tau(W_i - W)$$

where primed parameters represent intervention-modified values. The strongest conclusion of the intervention analysis:

> **Theorem (Multi-dimensionality of anti-oligarchic transition):** Oligarchic capture is multi-causal, arising from the interaction of reinforcement, fragility asymmetry, poverty traps, weak saturation, and network centralization. Therefore, anti-oligarchic transition must also be multi-dimensional. No single-parameter intervention is sufficient to reverse the system's long-run trajectory.
>
> *Reversal* (not merely slowing) of oligarchization requires that the average drift of inequality become negative:
>
> $$\frac{d}{dt}\text{Gini}(t) < 0$$
>
> This requires simultaneously: reinforcement sufficiently suppressed, fragility asymmetry sufficiently reduced, poverty traps sufficiently weakened, and balancing flows dominating concentration flows.

5.5 Structural vs. Parametric Change

Beyond parameter modification, the model supports analysis of structural change — altering the form of the update rule itself. If the mapping between wealth and access is changed (for example, if basic provisioning is decoupled from wealth), then:

- The δ term may weaken or disappear.
- The α term may change form.
- Baseline provisioning may become non-monetary.

This connects the mathematical model directly to the transition proposal: a system that alters the wealth-to-access mapping is mathematically distinct from one that merely adjusts parameters within the existing mapping.

6. Behavioral and Cognitive Dynamics

6.1 Behavioralized Agent Model

We extend the model by allowing the structural parameters to depend on behavioral and cognitive states:

$$\alpha_i(t) = \alpha \cdot A_i(t), \quad \sigma_i(t) = \sigma_0 \cdot R_i(t), \quad \delta_i(t) = \delta \cdot S_i(t)$$

where A_i (access), R_i (risk behavior), and S_i (stress) are agent-specific behavioral variables that evolve over time.

6.2 Key Behavioral Feedback Loops

- **Risk asymmetry:** Agents with lower wealth are forced into higher-volatility situations (unstable work, high-interest debt), amplifying σ_i precisely where fragility is highest.
- **Perception bias:** Agents act on their understanding of the system, not on objective reality. If failure is attributed to personal deficiency rather than structural dynamics, behavior reinforces rather than challenges the existing trajectory.
- **Unequal reinforcement:** Access to networks, education, and institutional pathways creates differential α_i. Equal effort produces unequal returns.
- **Social imitation:** Agents copy observed success. But strategies effective for high-wealth agents may fail for low-wealth agents, spreading behaviors that increase fragility.
- **Norm formation:** Repeated behavioral patterns become expectations. Extreme inequality becomes culturally normalized.

6.3 Behavioral Traps

At low wealth, stress compresses time horizons, producing decisions that are locally rational but globally harmful:

$$\text{Low } W \rightarrow \text{high stress} \rightarrow \text{short-term behavior} \rightarrow \text{worse outcomes} \rightarrow \text{lower } W$$

At high wealth, risk avoidance and preservation behavior produces rigidity. The result is a system that is unstable at the bottom and rigid at the top — structurally locked by behavior as well as by dynamics.

6.4 Limits of Behavioral Intervention

If α remains highly unequal and δ remains high, better individual decisions alone cannot overcome systemic constraints. Behavioral change operates *indirectly*, modifying parameters through changed behavior — but it does not directly alter the structural equations.

7. Institutional Feedback and Capture

7.1 The Wealth-to-Power Conversion

We introduce institutional influence as a function of wealth:

$$I_i \propto W_i^{\theta}, \quad \theta > 1$$

The superlinear exponent $\theta > 1$ captures the empirical observation that beyond a certain threshold, increases in wealth translate into disproportionately larger increases in institutional influence — campaign funding, regulatory capture, media control, and privileged access to rule-setting processes.

7.2 Institutional Feedback into Parameters

Once influence is established, it translates into changes in the underlying parameters:

$$\alpha(t+1) = f_\alpha(I(t)), \quad \delta(t+1) = f_\delta(I(t)), \quad \beta(t+1) = f_\beta(I(t))$$

Concentrated influence tends to:

- Increase α for the wealthy (more capital accumulation pathways)
- Increase δ for the non-wealthy (weaker safety nets)
- Decrease β (weaker constraints on accumulation)

7.3 The Second-Order Feedback Loop

This creates a self-reinforcing cycle layered on top of the original wealth dynamics:

$$W \text{ rises } \rightarrow I \text{ rises } \rightarrow \alpha \text{ rises, } \delta \text{ rises, } \beta \text{ falls } \rightarrow W \text{ rises further}$$

Inequality becomes oligarchy when wealth concentration is translated into institutional control — and that control stabilizes and protects the concentration. The system is no longer merely drifting toward inequality; it is actively maintaining it.

7.4 Institutional Lock-In

As institutional influence increases, the system enters a state of lock-in: parameters stabilize in a configuration that favors the dominant group, and reversing that configuration becomes increasingly difficult. Institutions resist change (inertia), policies reinforce existing structures, and alternative configurations become harder to implement.

8. Design Constraints for Non-Oligarchic Systems

The model constrains the space of viable alternative systems. Not all imaginable systems are structurally stable. A viable non-oligarchic system must satisfy all of the following:

1. **Distributed stability:** Resilience must be spread across many participants rather than concentrated in a few large stabilizing agents.

2. **Decoupled survival:** Access to basic provisioning (food, shelter, healthcare) must not depend entirely on wealth position:

   $$W_{\text{effective}} = W + \text{provisioning}_{\text{system}}$$

   This removes the catastrophic downside and transforms risk behavior, decision-making, and long-term dynamics.

3. **Flattened reinforcement:** Extreme differentials in α_i must be reduced. Effort and participation must produce meaningful returns across the distribution, not only at the top.
4. **Constrained accumulation:** Effective β must prevent indefinite accumulation from translating into structural control. The conversion of wealth into institutional power must be structurally flattened.
5. **Reduced fragility:** δ must be reduced across the lower and middle ranges. No fee barriers, compounding debt penalties, or threshold costs that make recovery impossible.
6. **Aligned institutions:** Institutional influence must not scale superlinearly with wealth. Feedback loops must reinforce system-wide stability rather than concentration.
7. **Behavioral compatibility:** The system must reward behaviors that sustain it and discourage those that destabilize it. A system requiring people to act against behavioral reality will fail.
8. **Distributed adaptation:** Local decision-making and distributed experimentation must be enabled, avoiding the rigidity and capture risks of excessive centralization.

> **Corollary:** The space of structurally viable non-oligarchic systems is much smaller than the space of imaginable alternatives. Many proposals fail not because they are morally wrong, but because they violate one or more of these

> structural constraints — particularly constraints 1, 4, 6, and 7.

9. Transition Pathways

9.1 Transition as Phase Shift

Systemic transition corresponds to movement out of the oligarchic attractor basin into a different attractor. This is analogous to a phase change: the underlying elements remain, but the structural organization is fundamentally different.

$$(\alpha, \beta, \delta, I_{\text{structure}}) \to \text{new configuration}$$

Transitions are characteristically nonlinear — long periods of apparent stability followed by rapid reorganization once accumulated pressure exceeds systemic resilience.

9.2 Implementation Principles

The model implies several principles for viable implementation:

1. **Lower fragility first.** High δ is one of the strongest stabilizers of oligarchic systems — not because it makes them healthy, but because it makes them hard to escape. Reducing everyday fragility (housing, healthcare, food, debt) is a structural prerequisite for transition, not a side effect.
2. **Build real alternatives before demanding mass adoption.** Functioning prototypes change expectations, reduce cognitive resistance, and create institutional learning. People are more likely to trust a system that has made one part of life concretely better than one that is merely explained.
3. **Sequence matters.** Removing stabilizing structures before replacements are ready produces disorientation and reversion, not liberation. Viable order: reduce fragility, build parallel systems, expand trust, shift institutions, then weaken old dependencies.
4. **Dual-track strategy.** Track A increases immediate resilience inside the existing system. Track B builds and institutionalizes alternative logic. Both must reinforce each other.
5. **Expect resistance.** Any stable regime generates stabilizing forces. Actors who benefit from concentration — materially, institutionally, or psychologically — will resist change. Implementation must include resilience against sabotage and enough distributed buy-in that alternatives cannot be easily isolated.

9.3 Anti-Capture Safeguards

Given the model's prediction that systems naturally drift toward concentration, post-transition systems must incorporate active safeguards: transparency in decision-making, distributed governance, rotation of roles, limits on accumulation of influence, and continuous monitoring of drift indicators ($d\alpha / dt$, mobility-band width, Gini trajectory).

9.4 Long-Term Stability

Dynamic stability — not static equilibrium — is the sustainable condition. A viable post-transition system maintains:

$$\alpha \leq \alpha_{\max}, \quad \sigma \leq \sigma_{\max}, \quad \delta \geq \delta_{\min}, \quad \gamma \geq \gamma_{\min}$$

where γ represents adaptive capacity — the system's ability to detect misalignment and adjust. Continuous feedback, distributed adaptation, and a culture of self-correction replace the brittle stability of locked-in regimes.

10. Conclusions

This model shows that oligarchic capture is not an aberration of currency-based economic systems. It is their structural attractor — the configuration toward which they naturally evolve under the dynamics of reinforcement, asymmetric fragility, poverty traps, network concentration, behavioral adaptation, and institutional capture.

The model's major conclusions:

1. Oligarchic capture is multi-causal. It emerges from the *interaction* of at least five structural mechanisms, not from any single cause.
2. Single-parameter interventions are mathematically insufficient to alter the long-run trajectory. Reform within one dimension — redistribution alone, regulation alone, growth alone — cannot overcome the reinforcing dynamics across the other dimensions.
3. The system organizes into a three-zone distributional structure (poverty basin, mobility band, saturation plateau) that becomes increasingly brittle as the middle erodes.
4. Behavioral adaptation and institutional capture create second-order feedback loops that stabilize and protect the oligarchic configuration — making the system not merely unequal but self-reinforcing across structural, cognitive, and institutional layers.
5. Viable non-oligarchic systems must satisfy a set of eight structural design constraints simultaneously. The space of workable alternatives is much smaller than the space of imaginable ones.
6. Transition requires coordinated multi-parameter change, institutional redesign, and behavioral transformation — sequenced carefully, with fragility reduction as a prerequisite and anti-capture safeguards as a permanent feature.

The proposed Transition can be interpreted not only as a moral or political project but as a mathematically intelligible restructuring of the parameters and relationships that generate oligarchic capture.

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