Setting Sun: The End of US Economic Dominance
Brandon Adams

An outsider offers an exquisite distillation of excellent writing and original thought about the US economy

Many books analyze the current woes of the United States. At 124 pages, 37,000 words this one is of modest length. Aside from being succinct, two other attributes recommend this book. It is exceptionally clearly written, and the author is a self-made man, beholden to nobody, and able to offer a totally independent diagnosis.

A point he makes that is not often seen elsewhere is that Federal tax revenues have been a fairly constant 17%-20% of GDP ever since the 1950s. That's all people are willing to pay, subject as they are to state and local income taxes, property taxes and sales taxes.

However, the spending program has expanded vastly in that time. The biggest drivers are Medicare/Medicaid, Social Security, and interest on the federal debt. Defense spending is at a similar level, but does not have the same built-in growth.

Brandon Adams became the self-made man that he is via poker. It is the subject of his prior books. He makes rich use of poker analogies in this book.

Cheating is a fact of life in poker. When people can get away with it, they will. He says that Nixon cheated other countries, especially Britain, when he closed the gold window in 1971. The US had promised to sell gold at $35/ounce. We simply reneged. deGaulle had had the foresight to take France's gold back. The English trusted us. They were had.

This is relevant because it is happening again. In Social Security and Medicare/Medicaid the US has made promises to its citizens that it has no means of fulfilling. Too many people are getting old, and they are living too long. The only way to make good on the promises is to satisfy them with dollars that are worth less. Far less. The alternative would be to declare a default and not pay them at all.

Adams says that the country, and in fact the world, is experiencing simultaneous bubbles in many areas. The current ones will eclipse historical bubbles such as Japan, NASDAQ, and housing.

He handicaps the players. Clinton was both smart and lucky; he didn't have the courage to tackle the fundamental budget imbalance, but he was able to kick the can down the road. Bush was neither smart nor lucky. He was foolish to get involved in expensive, unwinnable wars, and doubly foolish to cut taxes at the same time.

Adams is relatively kind to Greenspan. He says that Greenspan truly believed in Ayn Rand style laissez-faire government. His problem was the refusal to acknowledge how deeply government involvement distorted supposedly free markets.

He excoriates the GOP for the 2011 debt ceiling argument, saying "you cannot go broke if you print the money." Balancing the budget is a phony issue. The real issues don't get addressed.

He quotes Reinhart and Rogoff favorably and accurately. This is a service to the reader – those authors are truly the experts, but ponderous and academic. In a nutshell, governments everywhere borrow when credibility is high, then default or inflate away the money when they cannot repay.

Adams asks, can we avoid default or deflation? He says yes, but it is unlikely. That is as close as almost any author will come to the truth.

The Fed started debt monetization in 2009, when foreign buyers for debt could not be found.

The Fed is caught in a vicious cycle of interest rates. Either they print more and more money, or interest rates go up as money is scarce. If interest rates go up, the Federal government goes further out of balance.

The fatal flaw of balancing the budget immediately is that asset values go to zero. There are forced sales to meet debt, which further depresses prices. They are forced to keep on printing, to keep interest rates low.

The financial sector is the source of huge income inequality, and also a product of government policy. High levels of inequality result from pushing money to the banks. Adams says this is the implicit contract. We support the people at some minimal level and they don't rebel. Meanwhile, banks get rich and productive sectors of society are increasingly squeezed.

The US has fallen victim to the fatal twofold enticement of being able to print money, and to borrow in the currency it prints.

Adams' solution is hardly a solution. We have to keep on printing money because an uncertain disaster is preferable to a certain one. He says nix to tea party and European brands of austerity. Unfortunately, he doesn't see any way out. Neither do the central bankers like Dijsselbloem who are honest enough to offer opinions.

We are in a period of cognitive dissonance. Thirty year T bills pay only 3.05%, but everybody expects higher interest rates due to money printing.

Adams defines deflation as when people trust the currency, but not assets or much else. Inflation is when they don't trust the currency, only hard assets. For the moment, inexplicably, they seem to trust the dollar.

The effects of money printing will become evident when (and if) the economy returns to normal. Money already printed will remain in existence, and its velocity will increase, leading to inflation. In other words, money now stuck in banks and corporate coffers will start to be lent and spent.

Adams has an interesting quote on employment: "Those who suggest that new technologies will leave a large segment of people jobless are simply bound to be wrong in the long term; as technology allows more work to be done by fewer people, workers made redundant will find employment in some new area. The wealth creation that occurs as a result of improved productivity allows a society to create industries and jobs that service more specialized consumer needs."

That is how it should work. The way the system is structured now, especially in Europe, there are strong incentives not to work. Totally missing from this book is a discussion of demographics. He needs to consider people's cultural and intellectual ability to get an education and perform work that society needs to have done. Redundant, unemployed minorities have been accumulating for decades now. If there were substance to Adams' optimism, it should be evident by now.

Adams correctly notes that the present system results in misallocation of human capital. Countries are made wealthy by producing things – airplanes, software and whatnot. People find it easier to become wealthy nowadays by shuffling money, banking. We are not preparing our kids with skills that will make their country wealthy.

Standard analysis of QE thru QEternity

Poor people are hurt by inflation. Their debt burden may fall, but the value of their scanty assets and income falls also. This has the more immediate effect.

Adams offers a bit of unoriginal, but highly accurate social criticism. "What you get, at the end of the day, is a frenetic but listless population. We're wrecking our attention spans at a time when we need them, more than ever before, to tackle the relentless complexity of the modern economy.

We can probably expect wealth taxes such as now exist in France. Government has nowhere else to get the money, and those who own assets are a shrinking minority. Private pension assets are large and highly visible.

Why should the young be paying to support asset prices? They don't own any assets. A program that successfully uses government funds to prop up house prices hurts them twice: they have to pay higher taxes in expectation, and they will never get a cheap house.

This is a long review of a not-so-long book. It is a credit to Adams that he is able to pack so much information in such an easily-digested format. Adams' footnotes show a modernist's economy. They consist more of hyperlinks to magazine pieces than books. His goal is simply to tell the reader how it is; he is not making an argument to persuade those who might not believe him. My guess is that when we next hear of Adams, the story will be how he used these insights to capitalize on the situation. Maybe he'll become the subject of a book like Michael Lewis' "The Big Short."