Book Reviews by Ian Robertson

Ian Robertson, CFA, MBA, MA – Vice President, Director, Portfolio Manager | T 604 844 5424 | Toll Free 1 888 886 3586 | irobertson@odlumbrown.com
Odlum Brown Limited | Suite 1100 – 250 Howe Street | Vancouver, BC V6C 3S9 | Member-Canadian Investor Protection Fund

Title: ***Endgame: The End of the Debt Supercycle and How It Changes Everything***

Author: **John Mauldin and Jonathan Tepper**

First Edition: **Wiley (2011)**

Reviewed: **October 2012**

Rating:
★ ★ ★ ★
Out of 5 Stars

Endgame should be required reading for all who have more than a passing interest in where we may be heading economically. It should be read by policymakers (both elected and civil service), investment professionals, investors, and individuals interested in the tough choices we will soon, very soon, have to make.

True to its subtitle, “The End of the Debt Supercycle and How It Changes Everything,” and contrary to most books about the current economic malaise which focus on how we got here, Mauldin and Tepper focus very much on the choices we are faced with now or will be faced with in the very near future. The book is divided into two parts: first, a general explanation of current debt levels; the rules governing public sector debt, private sector debt, and balance of payments; the impact on economic growth; an explanation of inflation, hyperinflation, and deflation; and second, an application of the data and analysis from the first part to specific countries, including the U.S., Japan, the U.K., much of Europe, and Australia (Canadians will read this last part with interest and draw some parallels). The book concludes with a few broad investment recommendations and, surprisingly, much optimism for the future.

The analysis is excellent, the graphs are generally very helpful, and the text is directed at a non-academic audience (no surprise, since neither author is an academic). This quote from the book about the timing of a debt default illustrates well the authors’ central point and demonstrates their clean, readable prose. “The point is that complacency almost always ends suddenly. You just don’t slide gradually into a crisis, over years. It happens! All of a sudden, there is a trigger event, and it is August 2008. The evidence in the book is that things go along fine until there is that crisis of magic debt level, no magic drop in currencies, no percentage level of fiscal deficits, no single point where we can say, “This is it. It is different in different crises.” The book referred to in the quotation is Rogoff and Reinhardt’s excellent *This Time is Different*, published in 2009 and from which the authors draw liberally (perhaps more than all other sources combined).

Despite these strengths, the book is hampered by two flaws: very poor editing, and a distinctly small government (Republican?) bias. There are many typographical errors in the text, but even worse are the errors in some of the illustrations, from nitpicky (Figure 1.1 is repeated as figure 2.1), to straightforward (Figure 1.7 showing the shift from consumer debt to government debt in the past few years is labelled backwards, and Figure 3.5 shows declining government/private sector ratio in France mirroring a declining economic growth rate. The authors’ point is the opposite, so either the chart is mislabelled, or they don’t understand the data), to downright annoying and confusing (the comments about Figure 10.1 don’t make sense). Finally, there are more repeated sentences and thoughts than one would expect in a well-edited book. For example, on page 140 the authors write “Saint Milton Friedman taught us that inflation is always and everywhere a monetary phenomenon” and four pages later “Nobel laureate Milton Friedman taught us that inflation is always and everywhere a monetary phenomenon.”

The second flaw is the more serious and a bit ironic given that the book is dedicated to the late financial historian and economist Peter Bernstein, who in one of his earlier books (*The Price of Prosperity*, 1962) argues for a larger role for the U.S. government. Admittedly, Bernstein was writing at a time when tax burdens were lighter and government expenditures were a smaller percentage of GDP, but he still had many positive things to say about government's role in a well-functioning economy. Contrast this with the analysis attributed to University of Chicago economist Harald Uhlig, who estimates $3.40 of lost output for every dollar of government spending. The number is so staggering, and not backed up with any other context, that it is hard to believe. Logic would dictate that countries with higher government spending (most of the world, compared to the U.S.) should have much lower, if not negative growth, and that in fact the U.S. itself should have experienced a similar economic stagnation as its own government grew over the years. One can have reasonable debate about the role of government in an economy and in a recession, but predicating it upon data such as this is just partisan, and detracts from the rest of this excellent book. Similarly, some data seems far-fetched (p. 52 "on *average* large firms (500-plus workers) are net destroyers of jobs."). While I don't have data to refute this, it seems that if this were really true, then eventually the economy would run out of firms with more than 500 workers. While none of these points are central to the point of the book, their inclusion detracts a bit from what is otherwise an excellent, well researched and presented book about an extremely important topic. Read it to give yourself some context for the difficult decisions we face.