



Epsilon Theory

Things Fall Apart

August 9, 2018



Little Carmine: So, the reason I'm here you could probably guess.

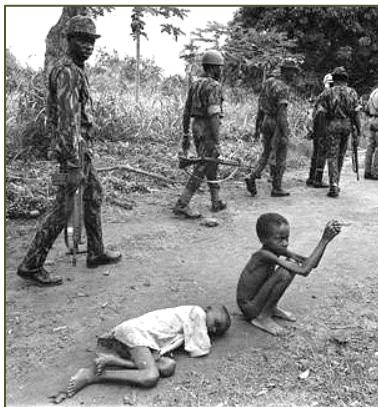
Tony Soprano: What happened at Coco's restaurant.

Little Carmine: This alteration you had with him. You're at the precipice, Tony, of an enormous crossroad.

— *The Sopranos*, "The Second Coming" (2007)

Turning and turning in the widening gyre
The falcon cannot hear the falconer;
Things fall apart; the centre cannot hold;
Mere anarchy is loosed upon the world,
The blood-dimmed tide is loosed, and everywhere
The ceremony of innocence is drowned;
The best lack all conviction, while the worst
Are full of passionate intensity.

— *W.B. Yeats*, "The Second Coming" (1919)



Ogbuef Ezedudu, who was the oldest man in the village, was telling two other men when they came to visit him that the punishment for breaking the Peace of Ani had become very mild in their clan.

"It has not always been so," he said. "My father told me that he had been told that in the past a man who broke the peace was dragged on the ground through the village until he died. but after a while this custom was stopped because it spoiled the peace which it was meant to preserve."

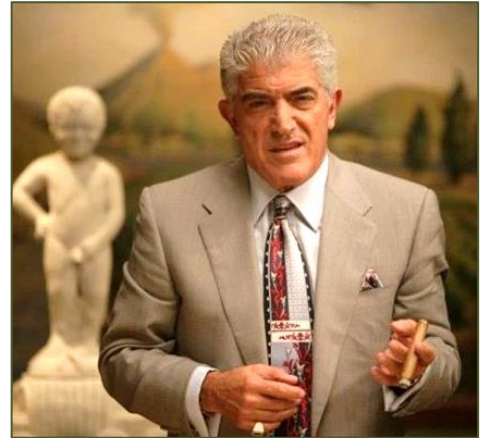
— *Chinua Achebe*, "Things Fall Apart" (1958)

***Things Fall Apart* is the best-selling book of any African author, with more than 20 million copies sold. Chinua Achebe got involved directly in politics when his native Biafra declared its independence from Nigeria in 1967. Nigeria won that civil war by imposing a blockade and starving as many as 2 million Biafran civilians to death. This is the least disturbing photograph of the Biafran War that I could find.**

Revenge is profitable, gratitude is expensive.

— **Edward Gibbon, “The Decline and Fall of the Roman Empire” (1776)**

We are all Tony Soprano today. We’ve tried to reason with Phil Leotardo. We’ve tried to compromise. We’ve tried to maintain the cooperative institutions of Our Thing. But the guy won’t take “yes” for an answer. He wants it ALL. So when one of his crew insults our daughter, we lose our mind. We overreact. We suffer Phil Leotardo Derangement Syndrome and we kick the lieutenant’s teeth in. Now we’ve got a choice. Do we settle with the guy we hate? Do we voluntarily pay the heavy price for breaking the “norms” of conflict with a guy who we suspect wouldn’t hesitate to break any norm at all? Little Carmine’s comic relief notwithstanding, we all believe that we are at the precipice of an enormous crossroad in American politics.



But what if it’s not a choice at all? What if the choice has already been made for us? What if we are immersed in a competitive equilibrium of a competitive game, where the *only rational* choice is to go to the mattresses? To do unto others as they would do unto you ... but to do it first. What then?

I don’t want to overstate the case. It bugs me to no end when people say that something is “another Pearl Harbor” or that we’re talking about a “civil war”. You know what’s like Pearl Harbor? Pearl Harbor was like Pearl Harbor. You know what’s like a civil war? Go to Wikipedia and look up Biafra, and then get back to me about how awful it is that Democrats and Republicans are figuratively at each others’ throats, not literally.

But for First World snowflakes like you and me, this is a big deal. This is a new equilibrium in the American political metagame. **This is the breaking of mediative and cooperation-possible political institutions and practices, and their replacement by non-mediative and cooperation-impossible political institutions and practices. This is what it looks like, in a modern Western context, when things fall apart.**

How did we get here? We got soft. I don’t mean that in a macho sort of way. I don’t even mean that as a bad thing. I mean that, just like the Romans of Gibbon’s history and just like the Africans of Achebe’s novel and just like the mobsters of the *Sopranos*, we have long forgotten the horrors of literal war and why we constructed these cooperatively-oriented institutions in the first place. We are content instead to trust that the Peace of Ani or the Peace of the Five Families or the Pax Romana or the Pax Americana is a stable peace – a stable equilibrium – where we can all just focus on living our best lives and eking out a liiiiittle bit of relative advantage. **We are content to become creatures of the flock, intently other-observing animals, consumed by concerns of relative positioning to graze on more grass than the sheep next to us.** Besides, it’s so wearying to maintain the actual intent of the old institutions, to *mean it* when you swear an oath to a Constitution or a god or a chief, and not just see it as an empty ritual that must be observed before getting the keys to the car.

This has all happened before.

NARRATOR: And so it came to pass that in the late days of empire, both Rome and America waged remote control wars through vassal states and provincial “citizens”, wars that were no longer debated by the Senate but were announced by administrative fiat alongside a schedule of entertaining games and pleasing economic distributions, wars that could last for decades in farther and farther flung corners of the empire, wars that were all about naked commercial interest even as they were gussied up with strong words of patriotism.



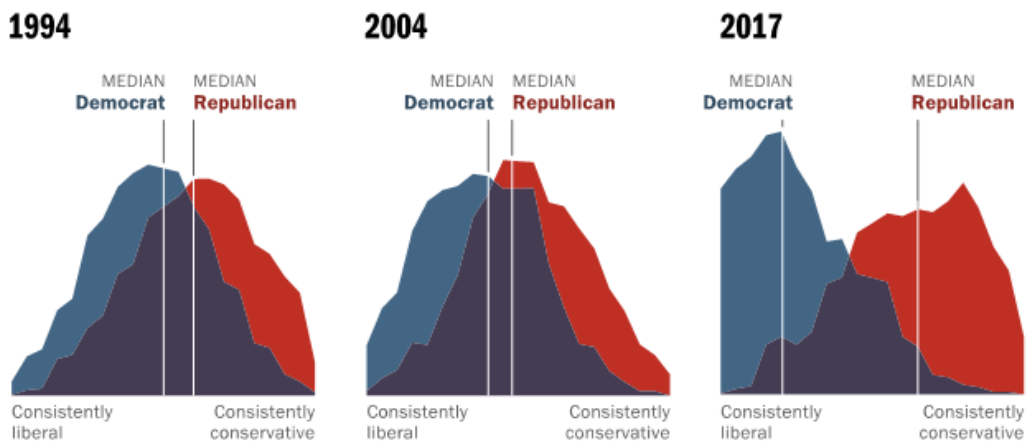
Sure, tell me again how much we’ve advanced over the past 2,000 years, how much smarter we are, how much more self-aware and woke we are. What’s the difference between a President Trump and an Emperor Commodus? Commodus didn’t have cruise missiles for *his* Syrian theatrics. That’s really about the extent of it.

And it’s not Trump *per se*, although Trump – like Phil Leotardo or Commodus – is the apotheosis of what I’m talking about. **If it weren’t Trump, it would be someone just as ridiculous.** It WILL be someone just as ridiculous in the future, probably someone on the other side of the political spectrum, someone like Elizabeth Warren or Kamala Harris. See, I am an equal opportunity connoisseur of ridiculous politicians. I’d say don’t @me, all you Trumpkins and Good Leftie Soldiers alike, but it won’t do me any good. Ah, well. That’s the thing about an equilibrium. That’s the thing about a widening gyre. The times make the man. Or the woman.

Here’s what a widening gyre looks like.

Democrats and Republicans more ideologically divided than in the past

Distribution of Democrats and Republicans on a 10-item scale of political values

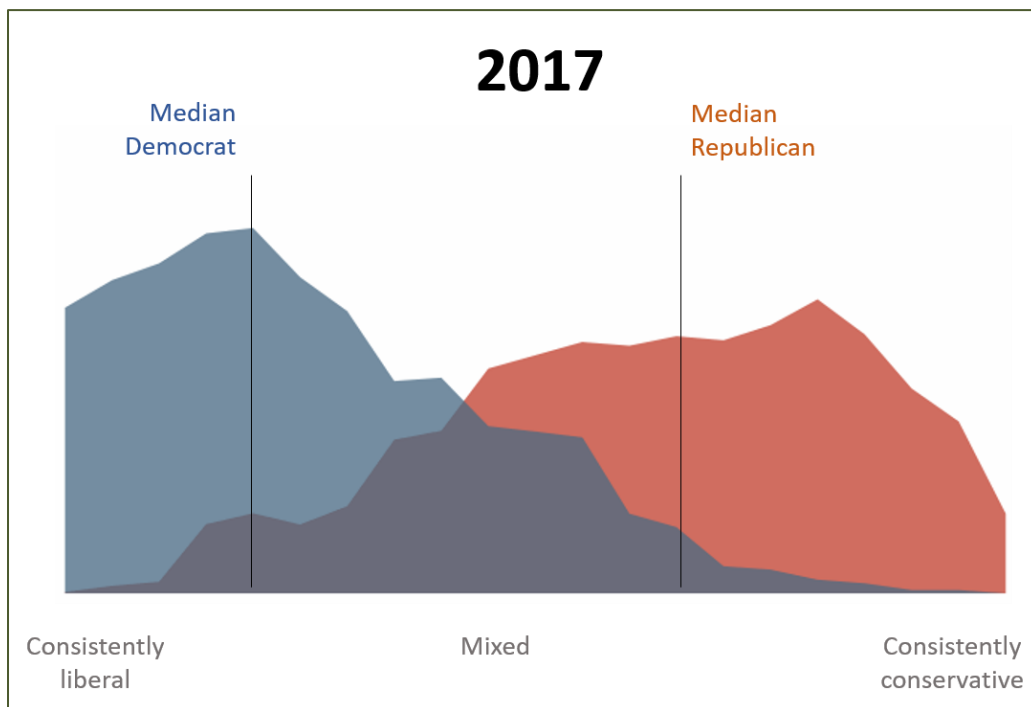


Notes: Ideological consistency based on a scale of 10 political values questions (see methodology). The blue area in this chart represents the ideological distribution of Democrats and Democratic-leaning independents; the red area of Republicans and Republican-leaning independents. The overlap of these two distributions is shaded purple.
Source: Survey conducted June 8-18, 2017.

PEW RESEARCH CENTER

The Pew Research Center does consistently excellent work on U.S. voting patterns. In this long-running research series, they tend to focus on the distance between the median Democrat voter and the median Republican voter, and that's all well and good. What I'm focused on however, is the *shape* of the Democrat and Republican electorate distributions, such that the *overall* distribution in 2017 is no longer a single-peaked something-akin-to-a-bell-curve as it was in 2004, but is instead a double-peaked or (to use a \$10 word) *bimodal* distribution.

The bimodal distribution began to take shape in 2014, well before Trump came on the scene, but it's just gotten more and more pronounced since his 2016 election. There's a [time-lapse animation of these charts here that's cool to watch](#), and I've put a solo shot of the 2017 results below.



So what's the problem with a bimodal distribution? The easiest way to think about it is to compare the size of the purple area (where both the Republican and the Democrat electorate overlap) with the pure blue area (Democrat with zero Republican overlap) and the pure red area (Republican with zero Democrat overlap). **When the purple area is smaller than both the blue area AND the red area, a centrist politician (someone between the median Democrat and the median Republican) can win neither a national nomination nor a national election in a two-party system.** For any centrist candidate or policy, there exists a winning majority of voters on both the left AND the right who will favor a competing candidate or policy on both the left AND the right. **This is what it means to say that the center cannot hold.**

This chart is why incumbent Republicans who speak up against Trump or Trump policies lose their primaries to 9-11 Truthers and that incel-in-training kid in 10th grade history class who proclaimed that the Civil War wasn't really about slavery. This chart is why incumbent Democrats who aren't outright Socialists lose their primaries to latte-sipping, fashion-forward young things who honest-to-god believe that Fidel Castro and Yasser Arafat had some pretty good ideas if you just stop and think about it.

This chart is why mainstream and relatively centrist political candidates like Hillary Clinton lost. This chart is why mainstream and relatively centrist politicians like Paul Ryan are quitting. And yes, this chart is why I will get angry emails saying, “how dare you call that devil incarnate [Hillary Clinton/Paul Ryan] mainstream and relatively centrist!” AND emails saying, “good riddance to that mainstream and relatively centrist [Hillary Clinton/Paul Ryan]!”. Good times.

If you’re an incumbent centrist politician, somewhere to the left of your median voter if you’re a Republican and somewhere to the right of your median voter if you’re a Democrat, you have exactly two choices.

- 1) You remain silent and just go with the party flow, clinging on for dear life against primary challengers, holding your nose at the party excesses, apologizing to your donors and your spouse in private, and hoping that one day the party comes back to you. You tell yourself “apres moi, le deluge.” Or in English, “sweet Jesus, have you seen the racist moron / lunatic communist who would take my place if I quit?”, and you’ve got a big enough ego to believe that sort of excuse as you slowly sell your soul.
- 2) You quit.

That’s it. Those are your options. I guess there are variations on #2, where you can either rage-quit (Jeff Flake) if your constituency is an eternal Trumpland desert or slink-quit (Paul Ryan) if your moderate constituency at least gives you a chance for a political comeback one day. But those are your only options.

And when I say that those are your only options, let me pour some cold water on the idea that there are centrist candidates who could carry votes from both parties in a general election, or that the time is somehow ripe for a third political party. Hahahahahahahahaha. No, gentle reader, the idea that Ben Sasse or Joe Biden can ride a purple wave to victory in 2020 is completely and utterly wrongheaded. Look again at that chart. Look again at the size of that purple area today versus its size in the past. In 1994 or 2004, that purple area is where Bill Clinton and George Bush lived and thrived. Today, that purple area is where political candidates go to die.

The idea of a third party is somewhat more interesting, but only somewhat. The interesting part is that most liberal democracies have had bimodal electorate distributions for a long time. We call this Europe. And if, like European democracies, the United States had a proportional representation system, where getting 20% of the national vote would give you 20% of the seats in Congress, well then, centrists would no longer be the sad sacks of American politics. On the contrary, they’d be the swing partner in any conceivable coalition and would wield enormously outsized political power. But we don’t have proportional representation, and until that happy day of a Constitutional convention and a complete reconfiguration of American democracy ... *fuhgeddaboutit*, as Tony Soprano would say.

The bottom line is this. In a two-party system with high-peaked bimodal electorate preferences:

There is no winning centrist politician.

There are no stable centrist policies.

Sorry.

One of the big points of *Epsilon Theory* is to call things by their proper names, to speak clearly about what IS. And what America IS today is a two-party political system with high-peaked bimodal electorate

preferences. So long as that is the case, we will be whipsawed between extremist candidates of the Right and the Left. Our choices for president in 2020 will be The Mule and Madame Defarge. Enjoy.

I say “enjoy” because I can’t help but use snark in my despair. But the truth is ... and again, this is what a bimodal electorate preference distribution *means* ... a significant majority of Americans will enjoy very much, thank you, a choice between The Mule and Madame Defarge. Or as all the pundits will say on TV, “the base sure is excited”, and that will be true for both Democrats and Republicans.

So why do I despair? Primarily because I think that the policy agendas on both extremist sides are an absolute dumpster fire, and that lurching from stem to stern on fiscal policy and social policy and national defense is a really crappy way to run a country. All I can hope for is gridlock.

But secondarily I despair because, as much as a significant majority of Americans will want and will enjoy a contest of extremists in 2020, an *even larger* majority of Americans will be very *unhappy* with *whoever* wins. A bimodal electorate preference distribution doesn’t just go away on its own. It doesn’t just get better over time. ***It is a widening gyre.*** It gets *worse* over time, as more and more extremist candidates, full of passionate intensity, strut and fret their hour upon the stage. That’s a mixed poetic metaphor, but you get my point. The widening gyre, as Yeats put it so perfectly, is a period of *mere* anarchy, not special or momentous anarchy. It is a tale told by, if not idiots, then ridiculous people, full of sound and fury and ultimately accomplishing nothing.

Has all this happened before? Sure. Time to dust off your copy of Gibbon’s *Decline and Fall*. Time to reread Will and Ariel Durant. Just be forewarned, the widening gyre can go on for a loooong time, particularly in the case of a major empire like Rome or America. It took the Romans about four centuries to officially exhaust themselves, at least in the West, with a few headfakes of resurgence along the way. Four centuries of mostly ridiculousness. Four centuries of profitable revenge and costly gratitude. Four centuries of a competitive equilibrium in a competitive game.

Has this happened before in American history? Hard to say for sure (how dare the Pew Research Center not be active in the 1850s!), but I think yes, first in the decade-plus lead-up to the Civil War over the bimodally distributed issue of slavery, and again in the decade-plus lead-up to World War II over the bimodally distributed issue of the Great Depression. I really don’t think it was an accident that both of these widening gyres in American politics ended in a big war.

I think that’s how this widening gyre ultimately resolves itself, too. In a big war. Not another Civil War, because the issues at stake today in the aftermath of the Great Recession aren’t existential and foundational like slavery, but are echoes of exactly the same issues we wrestled with in the aftermath of the Great Depression. No, we’ll need a big war with an Other to get out of this.

So one way or another, that’s what we’re gonna get.

This is Part 1 of a three-part series. Next, what’s the market/investing corollary to all this? Because there is one. And finally, what do we DO about this, as both investors and as citizens? Spoiler Alert: you may not like the answer.

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