



IN THIS ISSUE: ECONOMIC TRENDS OF NOTE

The President says anyone claiming that America's economy is in decline is peddling fiction. Well, Mr. President, fourth quarter stats are coming in, and this ain't fiction: The US Economy grew at an anemic rate of 0.7% in [FQ15](#). Orders for American-made durable goods fell 5.1% in December from a month earlier, and declined 3.5% for all of 2015 (the largest drop outside a recession since 1992). Fourth-quarter earnings for the S&P 500 are expected to fall 6% compared to one year ago, according to FactSet.

True, personal consumption grew, but that was mostly due to the rise in healthcare "spending" (yes, your increased health care costs, premiums and deductibles, now mandated by law, are counted as discretionary consumer expenditures). Spending on recreational goods and vehicles also continues to rise, but such sales are being driven by record-low interest rates and record-long lease contracts. The durability and advisability of these factors are questionable.

Meanwhile, the Congressional Budget Office says the deficit will top \$1 trillion in six years and continue growing (totaling more than \$9 trillion over the next decade), while debt held by the public will nearly double (from \$14 trillion this year to \$24 trillion by 2026), when it will then equal more than 86% of the economy.

No wonder Americans are still really worried about the economy!

What's behind it all, and where is it going? In this issue we offer some analysis on economic trends of note.

- 1 - STARTUPS ARE HISTORICALLY LOW
- 2 - WHAT'S ERODING THE MIDDLE CLASS
- 3 - THE FUTURE OF JOBS
- 4 - WEALTH BUT NO JOBS
- 5 - ISSUE OF WORK MISSING FROM POLITICAL CAMPAIGNS
- 6 - THE SOLUTION: SEND YOUR KIDS TO ART SCHOOL

1 - STARTUPS ARE HISTORICALLY LOW

Annual mean GDP growth in the US has slowed significantly from its long-term postwar trend (from 3.5% in the years 1947 to 2000, to 1.8% in the years 2001 to 2015). Some economists have referred to an era of "secular stagnation," theorizing that slow growth is simply characteristic of advanced economies. Other economists have shown that large public debt (which we certainly have) does in fact crimp economic growth. But according to analysts at equities.com, the real culprit might be the decline of

"business dynamism," that is, the slowing of the "churn" of new business startups. That churn is particularly important for an economy's long-term strength because *new businesses* are disproportionately important for job creation and productivity enhancement.

HERE'S WHY

Startups account for less than 10% of all firms, but generate 20% of job creation. Further, firms that expand their employment by more than 25% a

Trend Analysis That Builds Business Decisions

year account for about 15% of all firms – disproportionately startups – but about 50% of gross job creation. Business births outnumbered business deaths for most of our history. Unfortunately, however, by mid-2007 business deaths began to exceed business births, and the trend has accelerated since.

What is the cause? Simply put, the trends suggest that incentives for entrepreneurs to start new firms have diminished over time, while disincentives (costs, regulations, taxes, etc.) have increased. As long as that environment continues, write the analysts, expect to see the trend of sluggish GDP growth continue.

2 - WHAT'S ERODING THE MIDDLE CLASS

The middle class in the US is eroding, writes [Charles Hugh Smith](#).

The lifestyle that was widely accessible to a broad swath of households in the 1960s is now available, he estimates, to only the top 15% of households in the nation. How can that share be so low? Because, writes Smith, many households that today *consider* themselves “middle class” are *not* middle class – they have few if any productive assets, and even fewer will have any assets to pass on to the next generation as their retirement and other expenses may well consume much of whatever assets they currently own.

There are five primary drivers of this erosion in his view:

1. The shifting of pension and healthcare costs/risks from the state and employers to employees
2. The decline of scarcity value to labor in general and specifically in college degrees that were once the guaranteed ticket to middle class security

3. The inexorable rise in big-ticket costs (higher education, healthcare and housing) even as wages stagnate, claiming an ever-larger share of household incomes, leaving less to save/invest
4. The transition from an economy with stable returns to a financialized boom-and-bust economy that wipes out middle class wealth in the busts but does not rebuild it in the booms
5. The regulatory and administrative barriers to self-employment in a globalized economy

There is zero evidence that any of these drivers is going to reverse, Smith believes, for the reason that they are reflections of deep forces that cannot be reversed: demographics, the exhaustion of financialization, the 3rd Industrial Revolution (i.e. the digital/automation revolution), and the loss of scarcity value in the foundations of the middle class: labor and financial capital.

3 - THE FUTURE OF JOBS

From the World Economic Forum report, [“The Future of Jobs”](#):

Today, we are on the cusp of a Fourth Industrial Revolution. Developments in genetics, artificial intelligence, robotics, nanotechnology, 3D print-

ing and biotechnology, to name just a few, are all building on and amplifying one another.

This will lay the foundation for a revolution more comprehensive and all-encompassing than anything we have ever seen. Smart systems –

Consulting in:

- Market and industry analysis
- Strategic business direction
- Growth dynamics

Providing:

- Trend identification and analysis
- Keynotes and presentations
- Proprietary research and reports

Trend Analysis That Builds Business Decisions

homes, factories, farms, grids or cities – will help tackle problems ranging from supply chain management to climate change. The rise of the sharing economy will allow people to monetize everything from their empty house to their car.

While the impending change holds great promise, the patterns of consumption, production and employment created by it also pose major challenges requiring proactive adaptation by corporations, governments and individuals. Concurrent to the technological revolution are a set of broader socio-economic, geopolitical and demographic drivers of change, each interacting in multiple directions and intensify-

ing one another. As entire industries adjust, most occupations are undergoing a fundamental transformation. While some jobs are threatened by redundancy and others grow rapidly, existing jobs are also going through a change in the skill sets required to do them.

The debate on these transformations is often polarized between those who foresee limitless new opportunities and those who foresee massive dislocation of jobs. In fact, the reality is highly specific to the industry, region and occupation in question as well as the ability of various stakeholders to manage change.

4 - WEALTH BUT NO JOBS

Michael Strain in *The Washington Post*:

There is no question that technology is already having a major impact on the labor market. Needless to say, if these trends continue then we're in for a different world. If incomes for those at the top increase massively – those who can use the machines to increase their productivity, or those who own the machines – while good employment opportunities erode for the majority of Americans, it's unclear whether society will be able to function. Extreme inequality could conceivably lead to riots in the streets and political revolution. We've never yet gone so far down this road, so nobody knows what will happen.

And if the market can't sustain adequate wages for a large share of the population, should the government step in with large wage subsidies to fill the gap? It could be necessary to keep the peace. We may end up in a world where the federal government pays over half of the salary for workers in some occupations. Is that political economy sustainable?

Will the machines eventually be able to eliminate scarcity, producing all the goods and services we want to consume? If so, will we enter a kind of "Star Trek" future, where people get out of bed in the morning not to earn money but instead to better themselves? Or will we fall to the darker angels of our nature, with unoccupied time leading to a dystopian nightmare of crime, squalor, corruption, and hedonism?

Even if the optimists are right and we have a utopian future to look forward to, the lessons of the Industrial Revolution suggest that the transition could last quite a while and could be very painful.

More immediately, how should policy respond to changing technology? Here we need a guiding principle: Work is good. Fighting the rise of the machines may be shouting at the rain, but public policy should encourage and support work nonetheless. Figuring out how to do so is a great and under-appreciated challenge facing our nation.

- Market and industry analysis
- Strategic business direction
- Growth dynamics

- Trend identification and analysis
- Keynotes and presentations
- Proprietary research and reports

Trend Analysis That Builds Business Decisions

5 - ISSUE OF WORK MISSING FROM POLITICAL CAMPAIGNS

Michael Barone in [The Washington Examiner](#):

Let's focus on something about which we haven't heard much from the candidates of either party. How do they propose to get the current sluggish American economy to generate more jobs?

Some Republicans, including Trump, have proposed tax cuts tilted toward high earners. Other Republicans, notably Marco Rubio and the self-styled "reformicons," have called for tax cuts aimed at people with modest income and designed to encourage family formation.

The Democratic candidates haven't talked much about economic growth and jobs. When they have, they have proposed growth- and job-killers

– tax increases, a higher minimum wage, non-existent "shovel-ready jobs," paid family leave.

Largely missing from the dialogue is positive rhetoric about work itself. One interesting fact about America today is that – contrary to most of history – high earners work longer hours than low earners. One reason they do is they like and gain satisfaction from their work.

Whatever happens in Iowa next week or in New Hampshire the week after, there could be a payoff for candidates who make a connection between policy proposals and people's lives, who show how policies that spur economic growth could give people better chances to find work that maximizes their particular talents.

6 - THE SOLUTION: SEND YOUR KIDS TO ART SCHOOL

Dustin Timbrook at [rocketcitymom.com](#):

Can you imagine a world in which most jobs are obsolete? If not, you are most likely in for a rude awakening in the coming decades of radical shifts in employment. This is particularly true for new parents propelling the next generation of workers into an adulthood that many economists and futurists predict to be the first ever "post-work" society.

There is a solution, and it doesn't involve tired, useless attempts at suppressing technology. Like most good solutions it requires a trait that is distinctly human. I'm speaking about Creativity.

Send your kids to art school. Heavily invest time and resources into their creative literacy. Do these things and they will stand a chance at finding work and or fulfillment in a future where other human abilities become irrelevant. ...

The person with creative literacy – a basic understanding of the mental, emotional, and sociological tools used for creative thought and communication – is able to find purpose and apply meaning to her world rather than having meaning handed down and purpose assigned to her. ...

The change that will secure your children's safe passage through the future comes when we strip creativity of its mysterious, unearthly status. Artists are not magical geniuses. We are simply people who were either privileged enough or stubborn enough to hold onto something that every living person is "gifted" at birth. Assume that your children have limitless creative potential and begin to nurture it. Assume that your children's ingenuity is the one true safety net available in times of rapid change. Send your kids to art school and they will have exactly what they need to become anything they might need to be.