

Mischa's World - What Are the Trends That Will Shape the Future?

I was recently asked by a client what trends I think will shape our investment future? I started listing the trends I believe will have a major impact on his investments going forward, but this led me to think more broadly about the issues. In thinking about my answers I started envisioning the future of my beautiful five year old little girl, Mischa. What will the world be like in which she will live? The future is of course critically important to all of us because we will spend the rest of our lives there. In my post today I want to share what I believe to be the most important trends that will profoundly change our lives tomorrow and beyond – the world Mischa will call home.



1. Demographics

The world is undergoing significant demographic changes. This is not really new – the story of humanity is the story of demographic change – changes in human populations over time and space in terms of size, structure, distribution, births, migrations and aging. The technological progress of Europeans and their consequent migration and occupation of much of the world is a prime example of this powerful force.

The aging of the West will be a demographic trend that will be a dominant theme in my little Mischa's life. By 2030 the world population will have increased to 8.3 billion people up from 7.1 billion in 2012. According to The National Intelligence Council's report Global Trends 2030 the aging of populations represents a tectonic shift for the West, but also for developing or emerging countries. Today more than 80 countries have a median age of 25 years or less. By 2030 this tally will drop to 50. The high-income countries of the world will reach as a group a median age of 42.8 years by 2030. This aging will impact Western Europe and Japan more than the US; however, we will not escape the consequences of an aging population.

Since January 2011 the Baby Boomer generation in the US started turning 65. Almost 10,000 Baby Boomers a day are turning 65 – 4 million per year! This will continue for 18 straight years*. Countries with aging populations face slower GDP growth or stagnation. Older populations also tend to be less innovative negatively impacting economic growth. The aging populations will place ever increasing pressure on entitlement programs like Social Security and Medicare, which again will place ever increasing pressure on the federal budget. In 1950 there were 16 workers for every retiree. In the 1970's the ratio changed to 5 to 1. According to Research Affiliates the ratio today is 3.5 to 1 and is projected to drop below 2 to 1 by 2050 according to data from the US Census and UN. In 2050 Mischa will be 42, entering the prime of her spending years. Her income and concomitant standard of living will be dented by having to help pay for the entitlements of this burgeoning class of retirees. Of course, we cannot predict what types of technological and innovative breakthroughs there will be between now and then that could fundamentally transform our economy producing more than adequate growth to sustain such an aging population. This notwithstanding, over the next few decades our country will undergo profound changes as the Baby Boomers retire changing the structure of our economy.

This ballooning age cohort will increasingly withdraw money from savings to live on whereas in the past they have added money to savings through their retirement plans. It is an open question what impact this will have on our capital markets. If there are higher taxes, and a slower economic growth environment, combined with a smaller group of working Americans compared to the retired and retiring Baby Boomers, it will have to dent savings flowing into the capital markets. This of course coinciding with savings being pulled from the economy by retirees taking income.

As I mentioned, the growth of retirees will place significant pressure on our federal budget, making it more difficult to pay off our debt and keep our deficits in check. Although I am in the school of thought that believe that deficits and the country's debt is overblown over the short to medium term, I do believe it is a critical issue needing redress over the long-term. Reforming our entitlement system and our burgeoning debt will be no easy task. In the end the realities of an aging population will force us to cut benefits to retirees in some way, as well as increase taxes. The problem cannot be solved by only increasing taxes or only cutting entitlements. The pressure on the federal government will be immense in coming decades to also cut discretionary spending. In the end we will also have to accept a smaller projection of hard power since we will be forced to cut our defense budget as well.

2. The Rise of The Rest

3. The Food-Water-Energy-Climate Nexus

The third trend I believe which will have a major impact on Mischa's future is the increasing nexus among food, water, energy, and climate change. In a monumental shift due to an increase in the global population, expansion of middle classes and growth in urbanization (middle class people tend to live in cities) demand for food, water and energy will expand rapidly. Analysts studying this trend are not necessarily predicting scarcities; however, policy makers will have to plan carefully. These interrelated issues will have to be thought about in a proactive and holistic manner to come up with lasting solutions. These are important issues that will impact my Mischa's life and standard of living. It is beyond the scope of this posting to wade into the issue of climate change – which is such an emotional issue. Moreover, I don't know enough about the empirical proof of human causation when it comes to climate change. That being said, I think there is little doubt that a general warming trend is affecting weather and ecosystems. This will no doubt have a critical impact in the supply and cost of our three most critical resources – food, water and energy.

4. Mischa's World

My first and most sacred duty is that of Mischa's father. One of my most important functions as a dad – besides security, basic needs, and psychological development – is to prepare my daughter for the future. I will have to help her become an independent, critical thinking, and self-sufficient woman in a world where her economic opportunities will be diminished by an America growing at a slower rate compared to previous eras; burdened by the pressure of ever increasing entitlement spending for our aging population, and the struggle to get our long-term debt trajectory manageable. She will live in a world of increased migrations and competition from abroad. The Partnership for a New American Economy found that 76% of patents from America's top 10 patent-generating universities in 2011 had a foreign-born inventor. Luckily for us many of them stay, but native born Americans will have to understand competition in the future is going to be fierce for well-paying jobs. Mischa's world will also be a warm place with food, water, and energy being major factors she and her fellow Americans will have to contend with when it comes to public policy.

This is the world I have to prepare her for.

Disclosure: The economic forecasts set forth in the presentation may not develop as predicted.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual

*Source: Ken Dychtwald.