

Implications

The implications of MEICAP's findings are vast and not particularly positive. People frequently ask me what I recommend in terms of investments and I don't have very many good options to point to. Fact is; the economic growth we've become accustomed to for the past 25 years is coming to an end and there's no reason for it to come back any time soon.

After World War II, the "winning nations" had a baby boom while the "losing nations" had a baby bust. In particular, Japan had a baby bust after the war but had a small baby boom later in the 1960s. Anyway, as a result of this reality, we can look to Japan to see what all this might look like here in America. While we were enjoying significant economic growth driven by an age bubble, Japan was suffering the opposite effects.

In the early 80s, Japan was advancing quickly with quality driving product advances in almost all categories (cars and electronics in particular). Wealth was being created and the media was harping on the growing Japanese ownership of American assets including land and corporations. Everything seemed to be going pretty well for them. But as time passed, we started hearing less and less about Japan and, in fact, trouble seemed to be brewing.

During the 90s, Japan's economy was stagnating. With MEICAP complete, we now know it was merely a function of their population shortfall in the middle of their peak spending years. While our economy was experiencing record consumer spending, Japan's economy was going sideways. This went on for years and then in 1998, the banking sector in Japan collapsed because of diminishing investment capital and the currency shock drove ripples across the entire region. Of course, the devaluation of Japan's currency spurred new exports, helping to revitalize the economy but the events were all driven by this basic relationship between population and economic activity.

I read an article recently that stated over 50% of Fortune 500 companies have under-funded pensions. That means the balance in their portfolio and their realistic projected growth rates will NOT yield enough funds to pay the expected financial obligations these companies will have in the years to come. Although companies have seen surprising success in recent years dismantling pension programs, this statistic is nevertheless scary. It basically means the financial shortfall will have to come from companies' operating funds.

Now, does that represent a threat today? Absolutely not. But you can project forward and see where the problems begin; probably around 2014 to 2018. It's during those years when a lot of the Baby Boomers are still breathing and the pension money has all but run out. That's the time when problems start hitting the media. That's the time when large corporations face financial ruin because of their pension obligations.

Do I believe America will have a financial collapse by 2020 similar to the Japanese meltdown? No, I don't. Besides, the US dollar has been the reserve currency of choice for the past 50 years so everybody has a stake keeping its value stable. But the decline has already begun and I definitely see problems on the horizon. Although I wouldn't expect anything dramatic during the coming few years, I think the 2015 to 2025 period will be extremely painful in this country.

Politically, I think it's likely the Democrats will win the Presidency in 2008. I think the first term will be plagued with a recession but it's the 2012 to 2016 term that will demonstrate the true magnitude of the problem and the party holding the presidency will likely be blamed even though they had nothing to do with it. The recession recovery will benefit working Americans less and less while growth periods become more nebulous then ever.

The worst presidential term will likely be 2016 to 2020. I expect it won't be until that time frame that the truth about all this will truly come out. Economically, the biggest challenges will come during that time frame and I expect China and India will likely make their formal transitions from "developing countries" to "first world economies" during those years. It will be interesting to see how our prized "democracy" fares during these challenges.

Democracy requires growth to succeed. If growth stagnates and unemployment rises, voters become frustrated and vote the ruling party out. But if the challenges are structural in nature, the newly elected government will have little or no power to improve the situation. After a few cycles, voters see the pattern and look for options outside the democratic process. Situations like this have taken place before and usually result in rising crime and a larger focus on law enforcement services.

Time will tell, as it usually does, but that's what I expect ...