



Much of Trump's Agenda Will Be "Impossible" to Achieve

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JR: Welcome to RiskHedge Radio. I'm your host, Jonathon Roth. Today, I am joined by one of the world's pre-eminent demographers, Neil Howe. The managing director of demography at Hedgeye Risk Management, he has authored several books that have transformed the way all of us view the world, whether you know it or not. These have included *The Fourth Turning*, *Generations*, and *Millennials Rising*. And we will talk about another more recent book here in just a few minutes.

Today, we are living in a world that is seeing breathtaking economic and political change. From the election of Donald Trump and the refugee crisis in Europe, to the war in Syria and China's aggressive moves in the South China Sea, nearly all of these stories can be at least partially explained by demographics.

Neil Howe, thank you so much for joining me.

NH: Great to be here.

JR: Let's start with Donald Trump. At first glance, his election would seem to be an outlier. The US is more diverse than ever. The Latino population is rising. We're seeing more urbanization than ever before, and yet he still won. And I know that some people would point out that he lost the popular vote, but if you remove New York and California, he won the rest of the country by at least several million votes.

From your vantage point, was his election predictable?

NH: I think an election of a figure like him was predictable, and we predicted it in a book that we wrote in 1997 called *The Fourth Turning*. We suggested that in this era we're now in, the themes of authority, populism, and nationalism would become increasingly important—not just in our own society, by the way, but in societies throughout much of the high income world and in East Asia. And we see this, obviously, happening before our eyes. We see a new generation of leaders in East Asia who have no memory of World War II, who are much more aggressive and overtly pro nationalist in their sentiment than the last generation of leaders. And we certainly see it today in Europe with Brexit and all the various other Euroskeptic movements, which really first came on the radar screen in a big way in May of 2014, when they more than doubled their share of the European Parliament in Strasbourg. And ever since, you know, we've seen these new elections come along. We certainly saw how Brexit itself has really darkened the future for the European Union, and just a few weeks ago, the resounding defeat of the constitutional referendum in Italy. Matteo Renzi was repudiated by a combination in Italy with the equivalent of an alliance between Donald Trump and Bernie Sanders, if you could imagine that.

But the Five Star Movement and the Lombard League, just that kind of group, and they got huge plurality, I should say “majority” of votes from young Italians. This is an interesting thing we’re seeing in Europe, where young people are voting in favor of these Euroskeptic parties and in favor of the secessionist movement. We don’t see that in Britain and the United States, but we do see a new rising generation who themselves look at government in terms of a vehicle by which they can reinforce values such as community authority and the creation of new public spaces. It’s no accident that infrastructure was on everyone’s lips who ran for the election in 2016. And you know, the idea of community and infrastructure and public spending on infrastructure was not at all part of the original... you know, the traditional conservative or Republican orthodoxy. But it is a way in which Donald Trump is forcing a realignment of the political system and really realigning the base in favor of the, you know, new generation of voters and a new mood in the electorate.

JR: Interesting. So as Trump changes this... I guess... sentiment and the political landscape in the United States, you just touched briefly on what’s happening in Europe. And you said that there’s obviously a difference between what’s happening in Europe and the US, and I don’t know if you might describe it that the US is just behind Europe in some sense, in terms of this rising populism. What clues do you think Europe can give us for what the US is going to be like over the next decade or so?

NH: Well, I’ll tell you, in general. In general, I would say the opposite. In general, the United States is a leader in generational changes because I think the generational dividing lines occurred somewhat earlier in the United States. So the millennial generation is somewhat older in the United States than it is in Europe. But I will say this, Europe is in a far more dire situation in terms of institutional failure, and that’s what forces generations to sort of, you know, choose alternative courses of action. The typical course of a fourth turning as we defined it... as moving from catalyst to regeneracy to crisis to resolution. The catalyst was in 2008 and 2009, and I think the regeneracy is happening a bit earlier in Europe because of the more catastrophic failure of the institutions there to handle anything. You know, Europe is in much more dire straits in terms of its efficacy of its political and economic institutions than the United States. I think that’s just obvious by looking at any economic indicator and also by looking at the complete inability to control their environment. No political system survives which cannot control its immediate political environment... and I should say, “geopolitical environment.” And that’s certainly true for Europe today. And you know, Vladimir Putin is trying to take advantage of that and trying to insure that that happens faster, not slower.

JR: So how do you see... with the rise of Trump in the US, how do you see him affecting other mainstream American politicians in their reaction to this rising populous sentiment?

NH: I think it’s going to empower the Bernie Sanders wing of the Democrat party. There’s no question about it. And Bernie Sanders and Donald Trump actually had a lot more in common than people usually think. They both stood for the primacy of community over the individual. Authoritarian leaders who presented simple solutions didn’t put a lot of stress on process or choices for people, right?

I mean, Trump wants to insure results, right? He's going to go out and make big deals and bargain, and he's going to build things and he's not particularly... you know, the traditional GOP solution is to set up a free market process, which, the process will somehow automatically insure that people are dealt with fairly. No, Trump goes in there and says, "I'm going to guarantee you jobs or I'm going to guarantee we get contracts," right? Do you know what I mean? It's very results oriented.

And I think Bernie Sanders is the same way. I mean, his healthcare solution is single payer... not a lot of choice there, right? And this is what I mean by authoritarianism, and we see this, more authoritarian governments throughout much of the world, including East Asia. This is an interesting theme of the people that have been left behind, right? By a kind of the neo-liberal sort of free market ideology. This is something that, I think, both the Clinton wing of the Democrat party and the kind of libertarian wing of the Republican party have to come to terms with.

JR: So obviously it depends on what political persuasion you have to be (in terms of addressing my next question), but as you look at what's happening here, what happens if Donald Trump is either successful in what he's trying to do? Or if he's not successful... and I know there seems to be, at least from publications like *The Washington Post* and *The New York Times*, there seems to be a lot of negativity as to whether or not he can actually do what he said he's going to do.

NH: Well, the negativity of the establishment media is just taken for granted. I mean, they've been just extremely negative about everything about Trump from the first time they... at first they didn't even take him seriously. I mean it was beyond negativity. It wasn't even worth taking him seriously, and now, of course, it's a drumbeat of everything that's absolutely impossible or absurd about what he's attempting to do.

Now, I agree that much of what he is attempting is it wasn't much of what people think is possible with Trump is impossible. For example, the idea that Trump in 2016 is like Reagan in 1980. I think that's absurd. Remember in 1980, we had the wind at our back. A huge generation coming into the work force, and then in that generation all the women coming into the work force. Young people would rather die than live with their parents, right? So they were all in the work force, and today that's very different. Trump can look forward to a .2% annual growth in the working age population over his term. Ronald Reagan looked forward to 1.6% annual growth. That's 1.4% free GDP growth every year just due to more warm bodies. And then you had women coming in, and you had youth that were working. You also had debt at extremely low levels when Reagan came in, right? Debt is at very high levels. We are talking about Federal Debt, net or gross. We are talking about non financial debt in the economy. You also had national savings that were much higher... more than double the net national savings rate when Reagan came in than it is today. The current account was actually in a surplus in 1980. It's in a huge deficit today, which actually raises the question: If Trump wants to do fiscal stimulus—which will push down the net national savings rate, almost certainly increase the current account deficit by pushing the dollar even further up—what's that going to do for Carrier and all those other firms in the Midwest that export?

There are some huge contradictions there in what Trump is supposed to be doing, and of course, you've got the valuations of financial markets, particularly equities, right? 1980 saw one of the lowest valuations of equities in American history. Looking at PE ratios, Tobin's q, whatever you want to look at, there was a fire sale on American equities in 1980. So it was a cinch that it was easy to generate a boom in equities, right? A stock market boom starting from such incredibly low valuations after the stagflation of the late '70s. The typical S&P 500 company was trading at about 30% of the replacement cost, right, of its capital. That's just absurd.

Today, instead of being two sigma beneath the historical average of valuation, we're about two sigma above. Equities today are very expensive on any kind of cyclically adjusted PE ratio where net worth is a share of GDP or however you want to measure it. So I think on valuations, which is, of course, what an investor is going to find really important, we're in a very different situation. To believe that we're going to have an interrupted boom is basically believing that we are going to go from very high valuations through this huge political regime change—an economic regime change—without any interruption to even higher valuations. I don't think there is any historical precedent for that. And I expect as we saw with Reagan, there will be a big crash first. And I think that in the next year, there is going to be a lot more tumult than anyone predicted, and I think we're going to see the results in the market... not just what might be triggered in US markets, but what might be triggered in emerging markets where the high dollar is just hammering economies. And, in fact, it's hammering China. We like to think that China today is beginning to recover, but there's a huge amount of angst among policy makers in China right now. They're spending a lot of their foreign exchange reserves to keep the yuan from sinking faster than it is. There are a lot of problems around the world right now. The United States, I don't know, investors in US equities don't seem to be aware of them.

JR: I want to take some of the strands that you just talked about there and ask you one final question, and I said it in my introduction that I would mention another book that you wrote, one that you wrote back in 2009 called *The Graying of the Great Powers*, a book that you co-authored. You warned that there were very serious geopolitical dangers just around the corner, and just given what you just said, you could make a pretty good argument that your prediction is coming true right before our eyes.

NH: Well, in terms of purely demographic, as opposed to generational trends... from a purely demographic perspective of slowing work force/working-age population growth and increased aging, the maximum delta throughout the high income world and much of the emerging market world—particularly, for instance, China—is going to occur in the 2020s. And demographically, that's going to be a critical... we think we're aging fast now. No, 2020s is when we are going to have the maximum rate of change, and that's when everything is going to hit the fan with regard to entitlements as a share of GDP—not just here but in Europe. Also, it's in China. China will be a very rapidly aging society during that decade... as that huge, you know, red-guard generation, that very large generation that came of age with the cultural revolution, they will be now moving entirely into retirement.

And you know, that single-child-family generation replacing a very rapid aging in China, much faster than anything we've seen in the West. This will be a dangerous decade, and it comes at a time of high vulnerability, obviously... institutionally and economically as well.

JR: Well, some great insight there, Mr. Howe. Just for our listeners, Mr. Howe's books again include *The Fourth Turning* and *The Graying of the Great Powers*. They would both make terrific Christmas gifts. I can vouch for that. Thank you, Mr. Howe, for your time.

NH: You're welcome. Thank you for having me.

JR: Be sure to visit riskhedge.com for the latest on how to manage risks and live your life. For RiskHedge Radio, I'm Jonathon Roth.

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