Neil Howe: Super-bullish the U.S.A in the 2030s. But between now and then…

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Erik: Joining me now is Neil Howe, co-author of my favorite book of all time, business or otherwise, *The Fourth Turning*. Neil, thanks so much for making the time to join us today.

Neil: Great to be here, Erik.

Erik: Now, for our listeners who may not be familiar with *The Fourth Turning*, I just implore you: Read the book. This is the most important book of our time, in my opinion. And that's no exaggeration. Likewise, I strongly encourage you to listen to Neil's earlier interview on MacroVoices. You can find that by just typing "Neil Howe" into the search box at macrovoices.com.

For anyone who's not familiar, the basic thesis of *The Fourth Turning* is that we are all familiar with the business cycle: four- to seven-year cycles in the economy. There's also a long way of business cycles: 80 to 100 years that you can think of as seasons or turnings, which really define important times in history.

Fourth turnings are when major things change. The last fourth turning before this one, of course, was the Great Depression and World War II. The one before that was the Civil War. The one before that was the American Revolution, and so forth.

A number of predictions that Neil made in the book were things like during this time – and this book was written way back in 1998 – he predicted that during the present moment in history we would be prone to electing extreme leaders and that there would be a lot of division in society as more and more people lost faith in long-standing institutions in society.

Neil, you're batting a thousand, to be sure, with all of these predictions. But, as the man who made those predictions, I have to believe that as this fourth turning is unravelling before our eyes you must have a lot more insights in terms of how it's going and maybe things beyond what you predicted in the book.

So, tell us a little more about what we're seeing as this fourth turning unfolds.

Neil: Well, thank you. You know, you see the future through a glass darkly, from a distance. And, as it gets closer in view, you can kind of focus and see a little bit more of the granularity, the details. You see the outlines better.

We wrote our first book on this back in 1991, called *Generations* – that's actually, by the way, a book that I'm redoing now because it's a whole account of American history told from a generational perspective since the beginning of the 17th century. And we retell that story.

But when we first got at this back in 1991, we saw this as an era beginning around 2005–2006, something like that. I think now we would date it 2008 with the GFC, the election of Barack Obama, and, particularly, the incredible financial crisis and recession that we all experienced. And not just in America but, frankly, around much of the world.

I think that really is where we talk about moving into another season of history, what we call a fourth turning.

But, originally, we saw this as a movement toward community, toward national solidarity – in other words, the trends you're talking about, about polarization and fragmentation – suddenly reach a breaking point.

And then we begin to elect, well, what we're seeing today: populist and authoritarian leaders. And whole societies begin to lurch in one direction or another. We're seeing that around much of the world today. It's hardly just in the United States.

In fact, it's not even mainly in the United States. We're seeing it in the UK. We're seeing it in much of Europe. And we're seeing throughout Southeast Asia. In fact, as you go from country to country, from India to Burma to China to Japan to the Philippines, we're all seeing the rise of charismatic, populist leaders born after World War II who are asking for more sacrifice and more nationalism for their citizens.

And they're more favored by the young than the old. That's fascinating to me.

We're seeing that in Japan. Look at Uncle Xi in China. You see the resurgence, the popularity now of the Communist Party, which was actually going out of favor back at the time of Tiananmen Square. We're seeing this mood again.

And where have we seen this before? A decade played out in the shadow of a global financial crash, tepid investment inflation fears, falling rates of return, steepening income and wealth bias toward older age brackets, and the rise of right-wing populism, the waning influence of great power alliances or agreements, falling rates of fertility and home ownership, multi-generational households – you can go down a long list.

And we saw it in the '30s. Not just – we're talking about cultural mood, we're talking about politics, we're talking about the international scene and geopolitics.

Ray Dalio has been making this point, I think, very vocally, very emphatically, in the last several months, about – so much of what he's seeing now reminds him, in this broader cyclical sense, of the 1930s. And that's what I think we are seeing.

People forget that populism and authoritarianism are not contrary trends, historically. They come together. They're joined at the hip. And we're seeing them today in the United States. And I think, now, looking forward to the election of 2020, I think the writing is on the wall. I think you can see what's happening.

We saw the rise of populism first on the right, with Trump's takeover of the GOP, the Republican Party. And now we're seeing it arise on the left. What do you think the odds are? What's going to happen, Erik, when the 2020 – you have to admit it looks like a big deal now, doesn't it?

Erik: Well, Neil, you know the thing that really has been on my mind as I've watched this – and think about what I read in the book – you talk about how these fourth turnings start with a defining event. But that's not usually the big event of the fourth turning. And you described how, in the last fourth turning before this one, it seemed to everybody like the Great Depression was the big event. But, of course, they didn't know yet that World War II was going be the defining event of that fourth turning.

We think of the Great Financial Crisis as the big event of this current fourth turning. But does history teach us that maybe there's an even bigger event that's still yet to come?

Neil: Yes. The climax is near the end of the fourth turning. And this is a pattern we've seen repeatedly. Society breaks to pieces, and then someone puts together – there's what we call kind of a civic rebirth – someone puts together the pieces in a new way, kind of elicits a new sense of community. And then society starts to behave in ways that run roughshod over the individualism that people used to take for granted.

And it's a tumultuous era. It's an era of creative destruction of public institutions, the tearing down in order to create something new. And what comes out of that is a new sense of community, conformity, suddenly a much more forceful role of public life and government in society.

It's surprising to a lot of people, for instance, the new popularity of socialism on the left. People saw this just coming completely out of the blue. I mean, where in the world did that come from? We have been predicting that for a while now.

And, even on the Trump side, the Trump populist side, it leans much more toward corporatism and a certain kind of communitarianism than the traditional GOP line, which was all – don't forget, 15 years ago the GOP favored huge immigration and they basically figured free movement of people and capital all over the world, and basically the Washington consensus. Neo-capitalism rules, you regulate whatever you see that's regulated it.

Well we've moved way away from that now. And I think even the Republican Party has moved away from that. And, clearly, the Democrats have certainly moved away from the party of Bill Clinton and Al Gore when they came into the White House.

Erik: By my reckoning, we should be about half-way through this fourth turning at this point. And, as I understood the book, it probably would end around 2030. Number one: Is that right? And, number two: What would you expect to see for the second half of this fourth turning?

Neil: Yeah, I think things are going to warm up. And I think you have the growth of these movements all around the world. It's going to increase – nationalist hostility between countries. It's going to lead to some unholy alliances between countries. Possibly there could be a new authoritarian blend or alliance that we could see emerging.

Certain countries, they're already beginning to emerge – Turkey, and Iran, and Russia, and China and so on – saying they have their own answer to questions about censorship and individual rights. They have a different answer from the West. And the West is kind of decadent and maybe this is a better path to the future.

And, given this poor state of Western democracies, a lot of people, maybe even some in the Western democracies, may be agreeing with them. That's exactly what happened in the '30s. And I see this happening.

I think, also, it's worth pointing out how many of these problems we're seeing now, they're going to be aggravated by stuff that we just inherited, a massive public sector that we already can't afford. Think of that.

We didn't have that going into the 1930s. We have a demographic crunch that's much more severe than anything we faced in the 1930s. And we have problems even controlling our macro economy. You know, going down into the zero-bound when it comes to interest rates that we didn't face in the 1930s.

We have some big baggage that we've inherited that actually in some ways makes our problem worse. Just the unfunded liabilities alone – I'm talking about the formal debt, but all the informal debt. You go through state and local and private and pension plans, together with all of our unfunded liabilities, social insurance. So we have big issues going into this decade.

Erik: Neil, I wanted to start there with this high-level overview. So we're half-way through a fourth turning. And, obviously, the question now is to zoom in a little bit, where we are at this moment. Let's talk about demography and what this means. You've prepared a fantastic slide deck for our audience.

Listeners, you'll find the slide deck linked in your Research Roundup email. If you're not registered for Research Roundup yet, just go to our home page at macrovoices.com and look for the red button that says Looking for the Downloads next to Neil's picture on the home page.

Let's go ahead and get into this slide deck where you start to look at maybe a more current perspective in terms of what these demographic issues are going to mean to markets moving ahead.

Neil: The first thing to point out – I'll start short-term and then we'll go longer term. The first thing – and I think this is very little realized – is over the past 21 years, about the length of a generation, we've been experiencing this tremendous deceleration in the growth rate of the working-age population.

Back in the late 1990s, we were growing at about 1.5% per year. By the year 2021, that's going to go down to almost absolute zero. That's going to go down to about .1%. Why? Because boomers are retiring.

And a very small generation of late-wave millennials are coming into the workforce. That's never happened before in American history. Nothing even close to that. This is much worse than baby-buster Generation X coming into the workforce in the earlier 1990s.

This is a big problem, because that is 1.5 percentage points of new able-bodied people in the workplace who are no longer going to be contributing to annual real GDP growth. And that means, amazingly enough, in the early 2020s, practically the entire increase in real GDP is going to depend entirely on productivity.

And people are absolutely not talking about that. I'm amazed. You can look at Trump's LND, you can look at Congress, you can look at Democrats, Republicans. You can even look at people on Wall Street – not sufficiently focused on this.

The 2020s in the United States is what we see – we have another chart on this later on in this deck. You can see that this is an epic super-trough of working-age population growth. And it's going to stay low throughout most of the 2020s. This is going to be an enormous drag on real GDP growth.

Now why does that matter? Because, as of late last year, the employment-to-population ratio, adjusted for age, adjusted for age brackets, reached the point of which we were at the peak of the last business cycle. In other words, reached the point at where we were in 2007.

So we have run out of room to grow by simply adding more people in the population of the workforce. The only way we are going to get more growth is by a larger population. That's just – we don't have that now.

So these new signs about employment growth beginning to slow are new signs that are going to grow in magnitude. We're going to be very disappointed with real GDP growth in the coming quarters because we can't get more out of employment-to-population growth and we're not going to get more out of total working-age population growth.

Now, that, of course, puts all the weight on productivity. Well, as you may know, and some of the listeners may know, and we have some charts on that just showing productivity is way down. We seem to have a big rise in the late 1990s, early ‘00s, due to the current implementation of ICT and this digital revolution. There’s a lot of companies, particularly with personal computers and so on, that has hugely slowed down.

And since 2008–2009, we have had historically very low productivity growth. We all say, okay, the GFC was terrible. Maybe in 2012–2013 they’re saying, just give us a few more years. No, it hasn’t revived. It revived slightly in the last year, year and a half, but it remains way below what it had been in the earlier post-war era.

So here is the problem: Very low productivity growth, almost no – on working-age population growth, what does that imply for GDP? And we have some estimates in the back of that deck where you can see a first-run approximation.

We also no longer have an increasing share of women joining the workforce. There’s some other things that are involved too that we can talk about. But, basically, this is going to be a very grim period for total GDP growth.

And it’s not just the United States. We’re going to see this same kind of population crunch begin to hit Europe as well as Asia. As many of the listeners know, these last two years have been huge birth deficits for China. So at their last National Congress in China, earlier this year, there was this huge hue and cry about how to introduce pro-natalist measures. This is the country, of course, that celebrated for 35 years the one-child policy. Now they’re suddenly trying to turn about-face.

Well, China faces an enormous problem as well. And, God knows, we could go and talk about Russia and Eastern Europe and some of the other countries.

What this does is it increases strain on all of these countries. It increases strain to maintain living standards. It increases strain to increase revenues for individual companies. I believe it increases the probability that companies will engage in cartels, market-sharing agreements.

I think, no question, that antitrust is going to be a much bigger problem going ahead. It already is. And here’s another populist issue, isn’t it, Erik? Antitrust. Market concentration. That’s being talked about again in America. Not just on the left but also on the right.

Erik: Neil, to pull these ideas together, why don’t you talk us through the slides in the deck and how the relate to this conversation?

Neil: Okay, take a look on this deck. Slide 2 is the point I started with, which is this huge slowdown in the growth of the working-age population.

Slide 3 is really interesting. It may introduce some viewers to what I call our Wylie Coyote moment of running off a cliff and then suddenly seeing there is nothing but space under you. It really compares the actual year-over-year growth in employment with the underlying – these are the blue bars at the bottom – this is the underlying growth in the working-age population. And, as you can see, ever since 2011, we've had growth in the actual employment that's been vastly faster than the growth in the underlying working-age population.

Where does that come from? Well, more and more of the population are working. But the question is: How long can you keep that up? And you can see, historically what happens is we don't have a soft landing. We don't have those year-over-year lines suddenly merging with the tops of those blue bars. What happens is that population growth suddenly goes steeply negative. We enter the next recession.

So my point is simply that we've gone a long time with employment growth growing much faster than our demography should allow.

In fact, in the next chart, Chart 4, we make the point that, when you adjust for the population, the age composition of the population, we're actually over where we were in 2007.

And the next two charts, 5 and 6, make that clear. You can see that the only age brackets where we are currently below where we were in 2007 in employment-to-population ratio, is basically very young people: people in their teens and early 20s.

That's not coming back for a lot of reasons. Parents and teachers and public servants are protecting kids a lot more. They don't want them in the workforce. They all think they should be studying and going to school. And more of them are now in college. And, also, some of the biggest employers of young people are in famously poor shape. I'm thinking particularly of retail.

The only other cell which is beneath trend is millennial men, basically men aged 25 to 34, that's about maybe a percentage point and a half below where it was in 2007. Maybe that explains about 400,000 men. Everything is above where we were.

Millennial women are hugely above where young women were in 2007. And you can just see, for older age brackets, they all either match or way over. And, needless to say, everyone over age 55 is working much more today than working back in 2007.

Now, further, Erik, on this whole question of what we call late-cycle dynamics – and people ask, well, what does that mean? And I say, well, look, at the end of every business cycle, what happens? You run out of new workers. You basically reach the saturation point. You've basically taken everyone out of the woodwork and they're all working.

And you can see where we are in the business cycle in Chart 7. The unemployment rate is extremely low. The year-over-year change in average hourly earnings is steepening again. You can see here in this chart, that happens at the end of every business cycle.

What else happens? On Chart 8 you can see that we – real GDP growth moves above its potential. We've been there since Q2 of 2018. That happens. You can see on this chart, that happens right before a recession. Every time. That's what we do.

The CBO calculates this number. That means the economy is growing faster than its potential.

Another great late-cycle indicator, going down some of these, is the 10-year and 90-day. That's been in the news a lot. That's the yield curve. The yield curve now is actually worse than I show it in this chart, because it's actually inverted. Since last Friday to the Friday before last weekend, it has been inverted. And we can talk about the incredible track record of that as a recession forecaster, somewhere within the next 9 to 16 months.

The other line you see here is the consumer confidence spread. And, interestingly, that absolutely mirrors the yield inversion. In other words, if you ask consumers "What do you think about the economy right now and what do you think about the economy in the future?" right after a recession, everyone thinks the future is going to much better than the present. Everyone looks forward to the future.

About half-way through the recovery, it goes to switch the other way. It turns negative. Everyone thinks the present is actually much better than the future.

That's exactly what you're seeing on the current recovery. And you can just see how that – it's almost logically how that would echo the business cycle rhythm of the yield curve itself. That is, after all, what the yield curve is measuring. How much return today versus how much return is locked in the future.

I have a couple of other interesting charts here on 10 and 11. Ten actually is – if you ever played Hoops and Ladders as a kid, where you have these little interesting roundabout loop-de-loops, here are a couple of interesting charts that you'll enjoy. One actually plots the term spread against the VIX from 2006 to 2020 on a two-year lag. And you can see that this makes a huge loop around and we're right back now where we were back at the end of 2006. It's really amazing.

And here is another one on Chart 11, where you see another big loop. This one charts the term spread against the credit spread instead of the term spread against the VIX, and you see the same gigantic loop.

In Chart 12, Erik, we start talking about some of our long-term charts. In the first one there we outline this super-trough of working-age population growth in the 2020s, which is truly amazing.

Erik: Wow. I just have to interject a question here. I look at this – this is not just a little short-term thing. You're talking about this decade-long super-trough, which nowhere going back to 1952, on this chart on page 12.

Neil: Oh, there is nothing, believe me. 1952 was actually understandably a very small rate because that was the silent generation, born in the middle of the 1930s. They were a small generation. That was a tough decade. We weren't having many kids then.

Again, and we're talking about how decades rhyme. So that was actually a very low rate. An abnormally low rate. And it reached its low in 1955 at .6% growth per year.

In the 2020s, we won't be even getting near as high as .6%. See the difference?

Erik: Well, it's really profound. But the thing that I just can't get my head around is you look at this chart, it is so compelling – as are all of your other charts – but also on my screen I've got my stock market chart. We are racing on the day that we're speaking, on Wednesday afternoon, to another breakout high on the S&P 500.

It looks to me like we're past most of the resistance levels before we get back to new all-time highs. The new all-time high would be the next logical target, if I look at a technical analysis standpoint. If I look at your charts, we ought to be preparing for a depression.

So is it just that the market doesn't consider these demographic prognostications, or what?

Neil: No, all of this stuff is too long-term for the market. And that's why they don't care about valuation either. Everything is momentum. Everything is what we can squeeze out in the next few weeks until the end of the quarter.

Erik, you're familiar with how the Street and the market generally think about things. It's interesting, because I did a big session recently on a podcast on the inverted yield curve and walked readers through the whole history of the inverted yield curve and what the research was and how this thing built up. And it's fascinating to me that a lot of the responses I get are yeah, you're right, but you can still squeeze some out of the time that's left.

It's a little bit of the picking up pennies in front of the steamroller kind of thing. And so people are saying, yeah, but you're talking maybe nine months. That still gives us time, right?

Now, look, if you're really into market timing and you really think you can do a good job of that, maybe that will work for you. I'm just saying the problem with that is that, when it's unambiguously time to sell, a lot of people are going to find they can't sell. That's an old story. It's called liquidity. And sometimes it's no longer there when you need it.

Erik: Well, Neil, I guess if the market doesn't pay attention to this, maybe some people would contend that demography doesn't really tell us that much, or doesn't tell us reliably about things like GDP growth and what we can expect in the economy. So what does history actually teach us about the reliability of demography for use in this kind of analysis?

Neil: Well, it's great that you asked that question, because actually the next three charts – 13, 14, and 15 – exactly address that.

Chart 13 basically takes you through. We did something very simple here. We created what we call a fundamental GDP growth trend analysis where we basically said could you accurately predict a 10-year growth trend in GDP by only looking at the trailing productivity performance and the change in the growth rate of the employed population as just projected by demographers?

And you can see here a very tight fit. Either you're looking at actual GDP growth or potential GDP growth. It's a very tight fit. And it absolutely tracks this huge decline we've seen since the GFC. And it's just obvious from this chart.

The next chart, on 14, gives you historical color to that. And it basically shows how that fundamental GDP formulation could be separated out into three different drivers: the productivity contribution, the employment of population contribution, the growth in the working-age population.

And then, finally, there are some green parts of these bars here which just indicate the changing share of the population that's employed, mainly due to the entry of women into the workforce, we can see grew a lot during the 1970s and '80s. And it's since pretty much disappeared altogether and actually turned quite a bit negative early in the post-great-recession period.

There's a whole story in here about high productivity during the early- to mid-'60s. You see the huge impact of boomers during the '70s. The '70s are kind of a miserable decade because, although boomers gave a big boost to GDP growth, productivity absolutely tanked.

And then you begin to see how productivity revived in the – anyway, it's a great story. When you look at that chart, there's actually quite a bit you can see behind what's going on there.

And then, finally, what we did is we basically said, okay, let's take a look at that and let's just extend that for the next 20 or 30 years. We'll just say we already know what demography is going to do for the next 25 years or so. Practically everyone is going to work who's already been born, so we can project that. And let's just assume we're just stuck at the productivity level we are today. And not just today, but an average of the last 10 years.

And that's what we do on Chart 15. You can see this is a pretty grim prognosis of future productivity. It's a wavy line a little bit, mainly following demographics, and we project we're sitting here at 1.3% real GDP growth by 2027 – by the way, the IMF predicts 1.4% – the CBO is a little bit higher at 1.8% – but then the CBO projects a revival in productivity growth. So they're projecting that productivity is going to regress towards mean in a positive way.

We consider regression towards mean as being a negative thing. Well, for the CBO it's a positive thing for productivity. And the Fed also predicts about 1.8%.

All of these are really low. But it makes you understand why they're low. Everyone knows these institutions are forecasting very low rates of real GDP growth. What I'm trying to do is explain why. Why that makes sense, given our demography and given the recent trends in productivity.

Erik: Neil, moving on to Page 16, it says long-term future. It seems like that's kind of the punch line. What are you saying here?

Neil: Well, this is interesting. Keith McCullough at Hedgeye, he has his quads. He's always talking about Quad 1, Quad 2. I said, Keith, I've got my own quads. So I divided – I basically show where every country is, basically, between now and the year 2045.

And I basically plot every country in two dimensions. One is how wealthy they are today, and that's the X axis. And the Y axis is how much are they going to grow or how much are they going to shrink demographically?

And it's interesting that, in the wealthier half of countries and those countries that are going to grow, the United States is actually the best situated. We are the only really major, substantial economic power, which is certainly much more affluent than average, that is actually expected to grow.

Look at Russia, China, Brazil, Argentina, Mexico, India – all of these are either negative or are definitely poorer than the middle-income ceiling of $15,000 per head. A lot of the other affluent countries you see around, from France and Germany and Japan and South Korea, these are affluent countries, but they're shrinking.

So it's interesting. And it shows that the United States has a lot going for it. We are not badly situated in the long run. But we have a lot of challenges we have to face. The rest of the world is also going to be facing challenges. Again, a little bit like the 1930s.

I'm very bullish long-term on the United States. But it's got big problems between now and then.

Erik: This is just such a fascinating aspect of human behavior to me, Neil. If you look at the data you present very persuasively on 13, 14, and 15, clearly the demographic signal is working. It's very reliable.

I've heard our mutual friend Grant Williams talk about this. He worked in Japan in the '80s. And people he describes would go to investment meetings and say, look at this demographic issue and this demographic cliff that Japan faces. This is going to be a big deal. And you get shut down in meetings and people would just say, oh, come on, demographics. Are you kidding? Do you think we haven't heard that one before? That's so just old. Come up with something new, Buddy.

And, of course, then it happened. At the end of the ‘80s Japan fell apart. The demographic prediction came true. And Grant describes how he would say, do you remember when I was saying about the demographic overhand? And they’d say, well, yeah, but everybody knew about that.

Yeah, everybody knew it, but nobody paid attention to it. It’s amazing to me that something so reliable nobody pays attention to. And it really speaks to where we are in this fourth turning cycle.

So I want to make sure I’m not reading too much into this. Would you agree with me that, as we look at a stock market maybe starting to break out in this what I though was a bear market rally, maybe we’re headed even toward new all-time highs in the stock market?

It seems to me like they’re not paying attention to the demographic signals and that this fourth turning ain’t over, baby. We’ve got another 10 years of serious turbulence ahead of us. And we should expect some real problems.

Am I reading anything I shouldn’t into your message here?

Neil: Well, Erik, I would just distinguish between near- medium- and long-term. I mean, demography is a long-term challenge. It’s a long-term challenge for a lot of the world today. Which is why so many countries have, just within the last few years, been switching to a pro-natalist array of policy incentives.

So this has not happened for very long. People are finally waking up to it. And you’re right. People have been very slow to wake up to something that was absolutely inevitable. But I’ve just seen that throughout my lifetime.

I was writing books with Pete Peterson back in the late 1980s about social security. We could see what was happening on that. You’ve got a huge generation of baby boomers paying their FICA taxes into it. A small generation, the silent generation of retirees retiring. We said, yeah, it’s going to look really good in the ‘90s.

Remember when George W. Bush became president? We actually had a surplus. And we said, yeah, that’s fine, that’s exactly right. But look what’s coming.

Well, we had a few other things. We had a war in the Middle East and a few other things. But the most important thing that happened was demography. Everything began to tip the other way between FICA revenue coming in and benefits payments coming out.

And now we see it. We see exactly what we saw back in the 1980s. People just didn’t believe it. We saw the same thing in China. I was over in Beijing and Shanghai back 10–15 years ago. Talked to demographers there. And all the Chinese demographers were saying absolutely this is coming. Our one-child policy is insane.

You look at other countries around China, Confucian societies much like China, without a one-child policy, and they're already falling into the super-low fertility range. We're down around 1.2, 1.3, 1.4 children per woman per lifetime. We should be preparing for this. We should be moving in the opposite direction. No one listened to that.

And part of the reason they didn't listen to them – in China, the monitoring of family fertility is a huge way that government intervenes and supervises the everyday lives of most Chinese. So they were very reluctant to let that system go. It's a form of social control. One way of, you might even say a precursor to the whole social credit system, which is sort of the digital version of this. I do believe that China is going to go, without giving up social control, to a very strongly pro-natalist policy.

We're seeing it in Russia. Vladimir Putin now has just recently unveiled a new award. It's called – I can't remember what he called it – it's something like the "golden medal of patriotism" to any parents who raise seven or more children. They're going to get walked down the main street in Moscow or something, never pay any taxes for the rest of their life.

You see Hungary, the government there is beginning to offer the same thing. This is becoming an authoritarian staple.

And many, obviously, of the other liberal democratic developed countries have long done the same thing. Probably most notably France. They have a very strongly pro-natalist policy.

But we're going to see much of the world moving in this direction. And a lot of it is going to be driven by concerns of national dominance. And isn't nationalism another trend we're seeing today, Erik, come back in the news and beginning to drive people?

Erik: It sure is. I want to come back just for a minute because you really peaked my interest with what you said a minute ago about social security and other entitlements.

As you said, in the '80s you were spending your time writing books about the fact that social security was not adequately funded to really prepare for anything. And that other entitlements were unsustainable. A lot of people took interest. It was on *60 Minutes*, it was covered in the news and so forth.

We didn't do anything about it. We didn't fix it. And, Neil, I would go so far as to summarize the perspective of the baby boom generation as, okay, so we've got social security, which is kind of broke, and we've got all these other entitlements that have not been funded and that are unsustainable.

And the thing is, that's an old story. We've been hearing that story ever since Neil Howe was writing about it back in the '80s.

And, you know what? It's still going along. And, hey, it's by law. I'm entitled to these benefits. I've worked my whole life and I expect to receive all of my benefits through my retirement because, dammit, I deserve it. And I won't accept anything less. And, certainly, that is the message of the baby boomers with respect to their voting policy.

How long does it take, Neil, before younger generations start to have a different idea? And maybe say, wait a minute, you guys never planned for this. Neil Howe warned you in the '80s that your entitlement systems were not funded and not sustainable. No, we're not going to pay into this Ponzi scheme and finance your social security payments and your other entitlements. You guys didn't plan for this. It's your problem. We don't want to pay for it.

What happens then? And do we get to a generational divide in the United States that pits the generations against one another?

Neil: Well, I think you're already seeing it. Millennials are starting to come of age and actually to run for political office. Generation X saw it, but they were not a politically engaged generation.

The Generation X motto was *You get where you're going to get in life through your own personal talents, through individualism*. Their only hope for government was just *I hope I stay off their radar screen*. But Gen Xers also had a very negative view of the future of social security. A lot of them would just say *Just give me my FICA money back. Just cash me out and I'll be good*.

But, of course, that's not going to happen. Their money is needed for all these boomer retirees.

But now, what's happening with millennials, you're seeing a much more aggressive attitude. It's like, *Are you kidding? You guys got all your college paid for. Look at me, I'm in debt. I'm going to have this stuff paid back. What are you doing? What have you done to America?* We have the lowest savings rate in the world, we've got all of these unfunded liabilities.

And it comes back to a point I raised earlier about – I know this is a delicate subject to bring up, but that is the declining faith among millennials in democracy itself. This is a fascinating subject that Yascha Mounk, who is a professor at Harvard, actually has some great surveys he's done recently on this basically showing, not only in America but in Western Europe, your belief in democracy is directly related to when you were born. The later you were born, the less you think it's important.

And millennials are the least likely to actually think that democracy is important. A lot of millennials look at democracies today and they see these are governments which seem to be perennially dysfunctional. All they do is borrow from our future. They do nothing to invest in our future.

And then people sometimes look at some of these other authoritarian regimes. Look at China.

They're saving, investing 40–50% of their GDP. They're creating all of these things.

And they say, yeah, I get it. No human rights, but, hey, it works. Remember, this was a tension that beset the West in the 1930s. We had the same tension between new rising authoritarian paradigms – didn't convince anyone. But, both on the left and the right, it sure convinced a lot of people, including Americans.

There was maybe 10 or 15% of the best and the brightest during the 1930s that joined the Communist Party. The Comintern. They took orders directly from Moscow. We forget that now because, after World War II they sort of, oh, let's forget about that. That kind of fed into the McCarthy era in the early '50s.

But my point is that we forget what those tensions really involve when people think their futures are being jeopardized by societies which no longer superintend their future, which no longer take care or plan for the next generation.

Erik: Neil, this conversation is just so fascinating to me. I want to shift gears a little bit because, working with our friends at Hedgeye, you are introducing a new demography service for investors. And I'm kind of curious to know what it is. I listened to the first podcast.

Actually, kind of a funny story, I told Matt Moran at Hedgeye, I said sign me up for this new thing with Neil Howe. He said, Erik, you're interviewing Neil later this week. Don't you want to wait and find out what it is before you sign up? I said, no, it's Neil Howe, it's demography, I want it.

So I listened to the first podcast. That podcast is intended for paying subscribers. We're going to share the first episode with our listeners this week, so you'll find a link to the inaugural episode of Neil's own podcast in your Research Roundup email this week, folks. Be sure to tune in for that.

But, you know, I was thinking that I was going to get more of the same of what I read in *The Fourth Turning*, of these very long-term trends. And I was very interested that that first podcast is really looking much more at maybe a demographer's perspective on things like the current yield curve inversion, which is much more short-term.

So give me more perspective, Neil, since I didn't listen to Matt who said find out what this thing is before you sign up for it, and I'm already signed up for it. What I can expect? Is it going to be long-term stuff, short-term stuff, a combination? What are you intending with this new product that you're launching.

Neil: It's going to be a combination of short-term and long-term. We sort of mix it up. Basically we look behind the week's headlines and I issue something called a newswire, which is basically looking at stuff that comes out – either talking about marketing trends, generational trends, politics, or just the findings of demographers, what's happening demographically.

Some of this is pointing toward very long-term concerns. Some of it is relatively short-term. And the podcast itself will take various issues that are just current. And some of them, I think, are very relevant in the relatively near-term.

The inverted yield curve is definitely one where, again, as we were saying earlier in this interview, if you go all the way back to the recessions of the late 1950s, we're really talking between the inception of a genuinely inverted yield curve, which was probably around six or seven days of inversion, 30-day, 10-year, that is basically around nine months to 16 months.

The longest lag was 2006 when we had to wait about 16 months. Well, that is really interesting, right? Because if we have an inversion, and we'll have to see – we had six market days in a row and then we had a couple of days when it went out of inversion. But if we're talking about a genuine inversion, which I think is likely by the end of this month, then we're looking ahead to what? Sometime between January and August of 2020 for the beginning of the recession.

Now that just doesn't have implications for our economy, in terms of bear markets, and two or three or four negative GDP quarters and all the rest, depending on how severe the recession is. But it has obvious political implications.

And I think that this is one area where I think, if you're interested in politics and how 2020 is going to go, I think you have to be interested in whether or not we're going to be in a recession. I mean, already, futures markets are predicting Democrats are going to take the White House by about nearly 60% odds with unemployment at under 4%. Well, what are those odds going to be if the unemployment rate is up between 8% and 10%? I think that question sort of answers itself.

And this plays into this notion of extremism, which I find so just poignant in America today. Each side believes the other is utterly beyond redemption. Each side is awakened, you know is woke, or is red-pilled, or whatever to the truth. And the other side is walking in complete darkness.

This is a fraught moment for America. And we're reaching the point in the fourth turning where the country either goes all in one direction or all in the other. And, again, this comes back to parallels we've had in earlier decades, like the 1930s or 1850s – you went through it in your introduction. Some of those examples.

But this happens historically. People have the erroneous impression that history is long-term and continuous and always moves at the same speed. It doesn't. History goes through breaks. It goes through what the ancients called *ekpyrosis*, these sudden breaks when things are, whole institutions are killed and new institutions are born overnight.

And this is an idea that's often been expressed. Vladimir Lenin, and he should know this – he once said there are decades when nothing happens, and then there are months in which decades happen.

And we have forgotten that in looking at history. Particularly political history, public history. There are times in which we rewrite the rules of the game very quickly. And there are also long decades in which practically nothing happens of any real public significance.

So that is really the importance of keeping a long-term historical view in mind. And that's really why I wrote *Generations* and why I wrote *The Fourth Turning*.

Erik: So if you don't want to wait for Neil's next appearance on MacroVoices, which I hope will be sooner rather than later, it's every week a podcast. Now, is the podcast the principle paid subscription product that you're offering? Or is there more to this new subscription?

Neil: There's a whole bunch of things people get. We come out with a newswire every week. I do a podcast every week. And we do at least one major report that they get every week. And, in addition, we do at least one video. Either myself or an interview with a guest that I think all the viewers will find interesting. So there's a bunch of things people get.

Erik: Well, I already signed up myself. And, again, I cannot possibly be more emphatic in recommending to our listeners first reading *The Fourth Turning*, following your work. And, for those who are interested, I strongly encourage you to listen to the inaugural episode of the podcast, which is only a part of this new product that you're launching.

It's "Neil Howe's Demography Unplugged" – it's offered by Hedgeye, not through us. Boy, if there one that I love to support, our buddies at Hedgeye. But I wish we could have hooked you up with the podcast on MacroVoices doing this, Neil.

And again, folks, the product offered by our friends at Hedgeye is "Neil Howe's Demography Unplugged." You can listen to the first podcast – which is normally for paid subscribers only – for free, by following the link in your Research Roundup email. If you want to sign up for this product, it is a 60% discount to MacroVoices listeners only. You can find that link also in your Research Roundup email. Or it's www.hedgeye.com/macrovoicesdu (for Demography Unplugged).

Neil, I can't thank you enough for a fantastic interview. I really look forward, as one of the very first subscribers to your new service, to listening to your podcast every week and following all of the other excellent content that you're going to generate.

We're going to have to leave it there in the interest of time. Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.