

Muddling for Solutions

By John Mauldin | November 22, 2019



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Those who experienced the 1930s as adults are mostly gone now, but they left notes. We have a pretty good record of what that period was like. It wasn't fun to begin with—then it got worse.

This year, I've written several times about the 1930s parallels that Ray Dalio and others see with our situation today. The similarities are indeed striking, but there are also important differences. Employment, for one.

Back then, a huge part of the working-age population couldn't find jobs because there were none to find. Now, the unemployment rate is at record lows. Yet the level of unhappiness is not all that different. Why? How can people have jobs and still be so dissatisfied?

Employment is not a binary condition. Jobs vary qualitatively: wages, benefits, working conditions, security, and more. Further, current conditions include assumptions from the past.

Six+ decades of steadily improving worker conditions have been eroding since the Great Recession. Humans look for easy cause and effect explanations, because we want to blame something or someone when things aren't the way we want—but it's not that easy. And it's particularly difficult when the actual cause is not something we can easily change.

To put it succinctly, if mass unemployment characterized the Great Depression, mass *under*-employment characterizes today's economy. Millions don't earn the wages they need to live comfortably, or they aren't able to work in the field for which they feel qualified, or they fear losing their jobs, or they're otherwise discontented.

Should just being "employed" make people/workers happy? On one level, any job is better than no job. But we also derive much of our identities and self-esteem from our work. If you aren't happy with it, you're probably not happy generally. Unhappy people can still vote and are often easy marks for shameless politicians to manipulate. Their spending patterns change, too. So it ends up affecting everyone, even those who are happy.

Today we'll discuss this problem and the importance (and difficulty) of finding solutions. Just for the record, I write about this repeatedly, trying to look at it from different angles because it is going to be one of the most contentious and difficult problems our society (globally) faces in the 2020s. As both citizens and investors, not to mention parents and family, we need to think about this now.

Hearts and Minds

A common reader response when I discuss our various problems is variations of, "Okay, what would *you* do?" That's completely fair. When possible, we should offer solutions when we describe what's wrong. But the solutions may still be insufficient and unsatisfactory.

Last week, I mentioned a [video](#) of a conversation between Paul Tudor Jones and Ray Dalio. These two wealthy and successful hedge fund managers see many of the same problems I do. Being highly talented problem solvers, as well as genuinely kind people, they're looking for solutions. Yet they aren't finding many good ones.

I believe this is because we need to do more than send the right amounts of money in the right directions, or make this or that rule for this or that group. These problems are personal. They exist not on spreadsheets, but in hearts and minds—and changing hearts and minds is tough.

Back in early 2017, I wrote a seven-part series of articles called [Angst in America](#). I re-read them last week and they are, distressingly, still quite timely. I started out talking about employment and, as the series progressed, found myself coming back to it over and over again. Rewarding work, or lack thereof, seems like the root of the matter. I wrote this in Part 1 of that series.

If our nation's work rate today were back up to its start-of-the-century high, well over 10 million more Americans would currently have paying jobs. And that employment shortfall makes a real difference to the growth of the economy. There are only two ways to grow the economy: You either have to grow the number of people working, or you have to increase their productivity. If you remove 10 million American workers from the labor force, not only are they not producing anything, the vast majority of them are obviously consuming the fruits of the labor of those who are employed.

As we will see, the number of people dropping out of the labor force is increasing, and if that trend is not turned around, the hope that we will get back to 3% GDP growth is simply wishful thinking. Couple that trend with reduced productivity and we will be lucky to see even 2% growth for the rest of the decade. If we have a recession, we will end up with a lower GDP than we have today. Think about that, and then plug it into federal budget projections.

Meanwhile, employers feel a different kind of angst. Many either can't find qualified workers or their workers require constant attention and extensive training to be productive. Neither side of the labor-management divide is happy with the arrangements. Everybody is apprehensive about the future. The common complaint from businessmen is not that they need more capital and the ability to borrow money from banks, but that they need more good workers in order to attract more good customers. [This is still so very true.]

This widespread dissatisfaction among employers, employees, and those who aren't working is one big reason Donald Trump is now president. He paid attention to a large group of voters that others ignored, spoke to their anxieties, and won the White House. It was not simply working-class white males that he appealed to; that is far too simplistic an analysis. It was also their bosses, spouses, parents, and friends. A huge swath of the country was experiencing a yawning disconnect between the reality of their daily lives and the supposedly growing economy touted by politicians and media pundits. We focus on the anxiety of the white working-class male, but I challenge you to find me an identity group (however you want to define it) that isn't anxious and concerned that things aren't heading in the right direction.

American culture used to be known for its optimism, its can-do spirit. That quality hasn't vanished, but it has surely lost some of its luster this century. You can see it fading in the statistics about the number of new business startups, which is now less than the number of businesses closing down. And that trend has been in place for almost a decade. The hope that the situation was temporary probably let people tolerate much worse conditions than they should have. But you can only look on the bright side so long before you get tired of waiting.

I wrote that in March 2017. We've seen *some* improvement since then, but clearly not enough. Millions remain anxious despite being nominally "employed." Wages aren't the only problem, but they're a big one.

And the number of new business startups versus the businesses closing is still in a downtrend. Every study that I have ever read attributes the growth in employment to business startups. In this case, the trend is not our friend.

Sadly, this underemployment trend will likely create even more political tension. But underemployment is a function of globalization and technology improvements, neither of which are going away. The details might change, but we're not going to put the toothpaste back in the tube. Technological improvements are a simple fact of life.

Politicians talk about the loss of US manufacturing jobs and point to foreign businesses and imported goods. They don't mention how many of our job losses are due to purely technological improvements. Manufacturing a car simply doesn't require as many humans as it once did.

This will get worse. Technology is going to replace many of the six million or so who make their living driving trucks, taxis, or other vehicles. Autonomous vehicle technology is not coming as fast as some think, but it's on the way. We will still need drivers, but the number of people competing for fewer jobs will drive the wages down. So we will have more people looking for jobs wherever they can find them, and even more underemployment.

Split Labor

In a 2016 letter called [Life On The Edge](#), I talked about the plight of people who, while not necessarily poor, aren't where they think they *should* be—and perhaps once were.

I can understand the frustration of people who don't feel that they are participating in the prosperity and growth of the country. I at least felt like I had a chance [when I was younger and starting my business life]. More and more people are feeling that circumstances—and the people who create those circumstances—are arrayed against them.

You might respond that even impoverished Americans live better than many others around the world. Maybe so. In some countries, the poor and downtrodden simply accept their lot and remain happy. Here, we get angry. Why?

I suspect that much of the anger we see is felt by people who thought they would never suffer financially. They were doing well, but then something happened—a job loss, a medical crisis, drug addiction, bad investments, something pushed them down the ladder. Maybe it was their own mistakes, but they don't like life on the lower rungs and don't think they should be there.

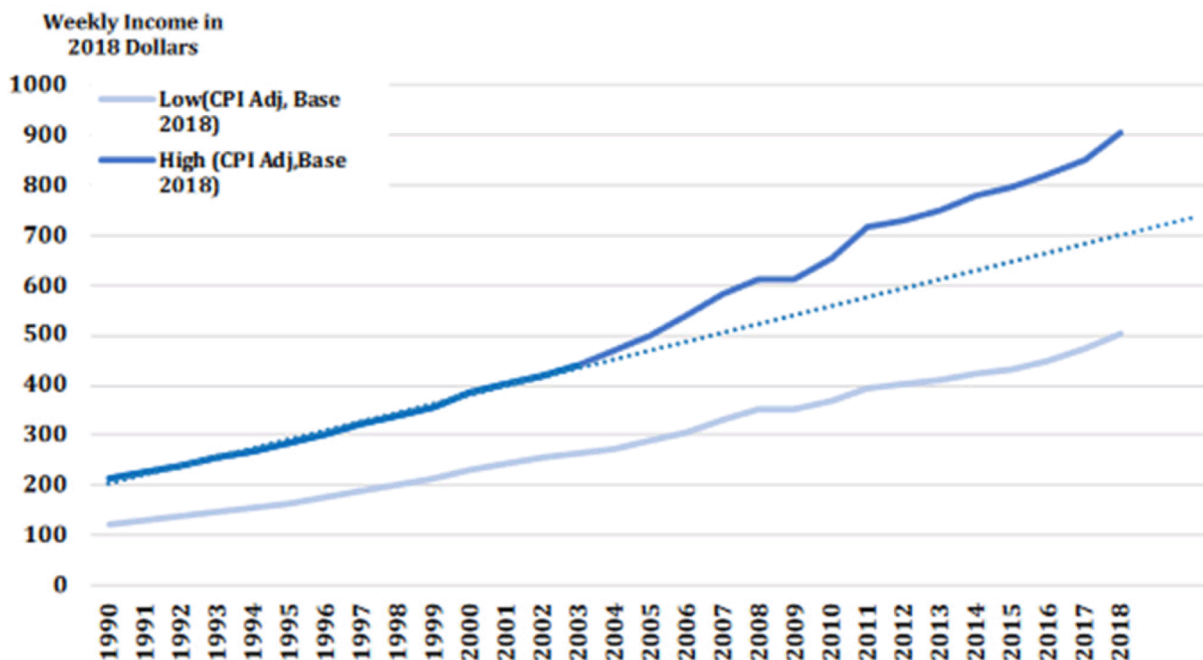
This disappointment isn't just in their minds; the economy really has changed. Yes, you can probably get a job if you are physically able, but the odds it will support you and a family, if you have one, are lower than they once were.

In that 2016 letter, I mentioned a Gallup Good Jobs Index, which they defined as working 30 hours a week for a regular paycheck. Gallup stopped tracking that index in 2017, at which point only 47% of the adult population had such a job.

A new indicator, the [US Private Sector Job Quality Index](#), aims to give us more granular data, distinguishing between low-wage, often part-time service jobs and higher-wage career positions. What they have found so far isn't encouraging.

Looking at “Production & Non-Supervisory” positions (essentially middle-class jobs), the inflation-adjusted wage gap between low-wage/low-hours jobs and high-wage/high-hours jobs widened almost fourfold between 1990 and 2018.

Figure 3
Inflation Adjusted Weekly Income for High and Low Quality Jobs (2018 dollars)



Sources: Data from BLS and Authors' Calculations

Chart: *IQI White Paper*

Worse, the good jobs are shrinking in number. In 1990, almost half (47%) were in the “high-wage” category. In 2018, it was only 37%.

Much of the wage gap came not from the hourly rates, but from the number of hours worked. The labor market has basically split in two categories with little in between. There are low-wage service jobs in which you get paid only when the employer really needs you, and higher-wage jobs that pay steady wages. The number of young people working in the so-called gig economy, working multiple part-time jobs, is growing. And part-time jobs generally are not high-paying jobs.

This also helps explain why so many relatively well-off people feel like they are always working and have no free time. They aren't imagining it. Their employers really do keep them busy.

So we really have two generally unhappy groups: people who want to work more and raise their income, and people who want to work less but keep their income.

What's the answer? We need to find one, and to do so we must *talk* about it. And that is possibly an even bigger problem.

Warring Tribes

The national anxiety level got where it is for many different reasons. Some are largely outside our control, like the technological advances that have replaced some human jobs. There are things the private sector can do to help but, like it or not, solving our problems will require political decisions.

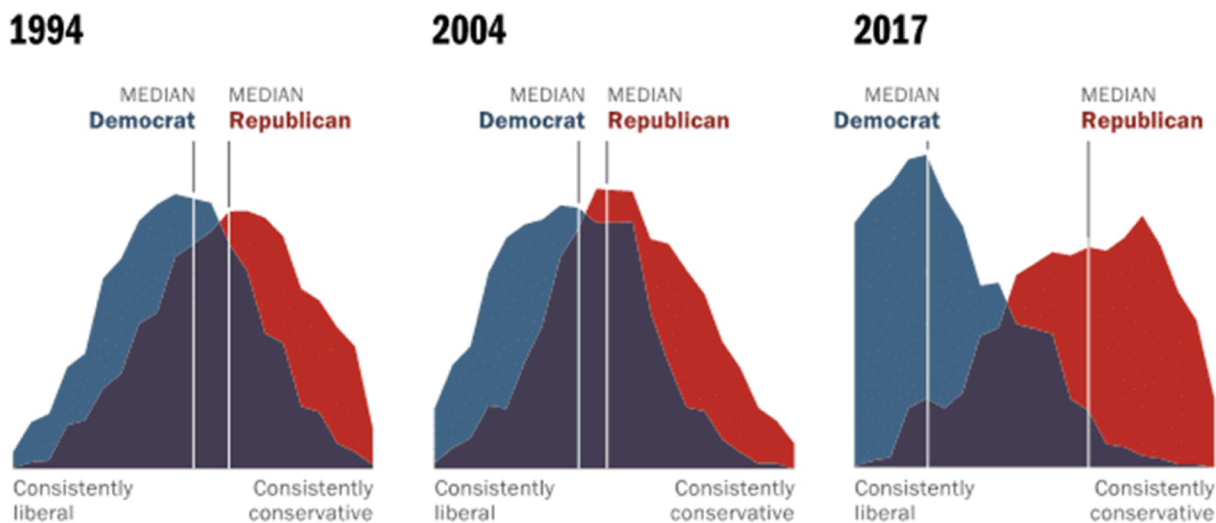
That's a problem because our political decision-making process is broken.

I grew up (and you probably did, too) in an era when the two parties argued and fought but would then sit down and find compromise solutions to the big problems of their time. I spent most of my life as a Republican, and at times an active one. I was on the executive committee for the Republican Party of Texas for many years. I was even a delegate to the Republican National Convention one year (actually a meaningless role, but was typically passed around as a reward for personal activity). But even then, I could have civil discussions with Democratic friends, talking calmly about our different approaches to national issues. That is increasingly difficult.

We can quantify this, too. Ben Hunt shared this Pew Research Center graph in his Things Fall Apart post last year.

Democrats and Republicans more ideologically divided than in the past

Distribution of Democrats and Republicans on a 10-item scale of political values



Notes: Ideological consistency based on a scale of 10 political values questions (see methodology). The blue area in this chart represents the ideological distribution of Democrats and Democratic-leaning independents; the red area of Republicans and Republican-leaning independents. The overlap of these two distributions is shaded purple.
Source: Survey conducted June 8-18, 2017.

PEW RESEARCH CENTER

Source: Pew Research Center

In this century, the ideological gap between the median Democrat and the median Republican has widened into a huge chasm. What as recently as 2004 was a mountain-shaped distribution with a small dip in between now looks more like a volcanic crater.

The simple fact is that the “center” (purple area in the Pew chart) is shrinking. It is hard to consider compromises when positions are so hardened that no compromise is allowable.

Whatever the reason for this (which is another debate), it prevents our political system from addressing important issues. This leaves an anxious population to feel either completely abandoned, or thinking it must align with one side or the other just to survive.

Politicians in both parties exploit this division. They have realized they can win elections not by convincing voters their ideas have merit, but by whipping up emotions and raising their own base’s turnout. This short-term thinking may help win the next election, but over time it destroys trust, divides people into warring camps, and—most critically—still leaves the nation’s most important problems unsolved.

How do we get out of this trap? I really don’t know. In the 1930s, it took a war to unite us. I’ve written often about [“The Fourth Turning.”](#) from Neil Howe and Richard Strauss’s book describing an 80-year generational cycle. Sadly, Richard is no longer with us, but I stay in contact with Neil. If he is right—and I’m afraid he is—we are in the most tumultuous portion of an 80-year cycle that has typically involved war or other cataclysmic events. This has been going on for centuries in the Western world. It is not just an American pattern. So in addition to all of the technological, political, and economic difficulties we face over the next decade, we also live in the most challenging generational period.

Can we get through this? I believe we can. I listened to my parents talk about their struggles and how they got through the Great Depression and World War II. You probably heard it too, though maybe from your grandparents. We can read the letters and writings of those who went through previous fourth turning cycles. There were tough times, but they always ended, bringing a period far more conducive to cooperation and solutions.

I know none of us like where we are. Sadly, many Americans no longer think in terms of cooperation, but in terms of conquest and control. We don’t just think “the other side” is wrong; we think they’re the enemy, a different tribe we must fight to the (hopefully rhetorical) death.

I once heard an addiction expert say that people have to reach a point at which the pain of staying the same is worse than the pain of making a change. Only then will they take the hard steps. Are we there yet? I fear not. But we need to get there, and soon, or the economic angst will boil over into something none of us will like.

Then again, perhaps the economic angst is what will get us to the point of cooperation. Maybe The Great Reset will do more than cure our debt issues. Just thinking...

Dallas and Thanksgiving

Next week, Shane and I travel to Dallas for Thanksgiving with our families, visit with friends, and go to a wedding before we return to Puerto Rico. We plan to spend Christmas and New Year's Day here in Puerto Rico.

Tonight I find myself in Philadelphia with Patrick Cox, where we have been meeting with one of the more innovative and thoughtful biotechnology teams in the world, discussing how to make the future happen rather than simply letting somebody else do it. They gave us a lot to think about.

And with that, I will hit the send button. Let me wish you a great week. And I hope you will be with family and friends for Thanksgiving.

Your getting ready to cook prime ribs and mushrooms analyst,



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