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## BBA MONTHLY PROMONTORY

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### *RED HERRING*



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Every political cycle or so, Americans exercise Newton's third law - the one about every action provoking an equal and opposite reaction. It happened in 2016 with the election of a populist outsider as president - in raw repudiation of a system that failed them in the past - and again last November as voters sent a cadre of young, self-styled socialists to the lower house of Congress for largely the same reasons.

Last month the leading lefties - along with veteran Democratic Senator Ed Markey of Massachusetts who, for his relative age and seniority seemed to be on hand for the sake of adult supervision - unveiled a resolution for a green future and redistributive fiscal policy. They called it the Green New Deal.

The response was worthy of a Third Red Scare. The partisan press chopped it into chum and served it to the base as an existential threat. The Economist bemoaned "Millennial socialists" and warned against efforts to "democratize" economies that would, among other things, impose a marginal tax rate of 70% on incomes of more than \$10 million and dramatic hikes in the inheritance tax.

Despite the ambient hype and gnashing of teeth inspired by The Green New Deal, we at Braun-Bostich & Associates are not duly concerned by a resolution with no realistic chance of becoming a law. It is little more than a PR stunt which, at this writing, has already evaporated in our rearview window.

However, if the Red Millennials and their manifestos are not by themselves a disease, they are certainly symptomatic of a host of legitimate grievances. Rather than grumbling about Bolshies in the belfry, we should be talking seriously about our diminished rate of productivity, the component parts of which - income equality, vertiginous debt, financial engineering, among others - happen to be the same hot-button issues that put the radical in chic.

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Productivity is the primary metric for economic efficiency. It measures output per unit of input - primarily labor - and is typically calculated as a ratio of GDP to hours worked. A country's ability to improve its standard of living depends largely on its ability to raise its output per worker by producing more goods and services for a given number of hours of work.

Worldwide, productivity has been eroding since the global financial crisis, compromising growth. In the U.S., labor productivity growth fell to an annualized rate of 1.1% between 2007 and 2017, compared to an average of 2.5% in nearly every economic recovery since the end of World War II.

In a report released last year, the McKinsey Global Institute declared - in a sentence that only McKinsey could abide - "a job-rich but productivity-weak recovery, with low value added but high hours worked growth, and a broad-based decline with a distinct lack of productivity-accelerating sectors." It cited as culprits the waning of a productivity boom that began in the 1990s; the financial crisis and its aftermath, when companies reacted to weak demand and uncertainty by freezing investment; and the failure thus far of the digital evolution to fulfill its expectations.

There are other factors at play. Rising debt levels have crowded out demand and capital expenditure, for example, while a generation of quantitative easing promoted short-term investments. Similarly, share buybacks - the value of which is on track for another record year - have risen at the expense of investing in long-term capital. The concentration of power over major industries by a handful of companies has also had a chilling effect on strategic investment.

Even free trade has come under scrutiny as an enemy of efficiency. Blogging on *Seeking Alpha*, Jason Tillberg argued "Peak Globalization" dulled the competitive instinct among U.S. manufacturers. Instead of American companies economizing to stay competitive, he wrote, we outsourced production to low wage countries.

Left unchecked, according to McKinsey, "long-term drags on demand for goods and services may persist and hold back productivity from changing demographics, declining labor shares, rising income inequality, polarization of labor markets, and declining investment rates."

There is an ironic postscript to this story. If a recent article in *Barron's* is anything to go by, our waning productivity is likely to be invigorated by the 73 million Americans born between 1981 and 1996 - in a name, Millennials.

Having crunched the actuary tables, economists anticipate a worrisome vacancy of Americans aged 40-49, regarded as the most prolific decade for inventors as measured by patent filings. However, it turns out Millennials are poised to take up the slack. According to recent projections reported by *Barron's*, the current number of Americans aged 40-49 will hit bottom in 2019 before rising by more than 20% by 2039.

*Continued on page 3*

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What to do about this demographical denouement? We must separate the bourgeois wheat from the proletariat chaff and join the struggle for economic efficiency. If we acknowledge the financial industry has a role to play in the process, we can drive the discussion away from socialist fantasies that only divert our attention away from a productivity revolution.

Capitalists of the world unite! You have nothing to lose but your executive lavatories—which, thankfully, went out with the 1980s anyway.

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