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Resolute Connections

Several key elections have, or will be taking place in Europe over the next few months, elections that could change the course of Europe and ultimately the returns on your foreign stocks. *No Surprises in France* discusses the recently held election in France and the positive impact the results should have on the European Union and European stock markets. *A Government Balance Sheet You and I Can Read* reviews ex-Microsoft CEO, Steve Ballmer's effort to make Uncle Sam's financial statements understandable to the rest of us, no doubt a laudable effort that may increase our understanding of the government. *Life Expectancies Up—and Down* reviews the changing life expectancies of Americans while *Robotic Unemployment and Wage Suppression* discusses some of the dire predictions economist are making about robots displacing many of our current jobs.

If you have any questions about anything we have covered in the articles below, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

No Surprises in France

By now, you've almost certainly heard that the French people overwhelmingly elected a centrist candidate named Emmanuel Macron as the country's youngest-ever President. Some had been predicting a Brexit-like, Trump-like upset for losing candidate Marine Le Pen, but the parallels extended only to the fact that Le Pen stood for some of the same things: exiting the European Union and halting the flow of Middle Eastern immigration. Like the Dutch earlier this year, the French rejected a nationalist approach to government, preferring a candidate who appears determined to reconcile France's political left and right. The final vote was a landslide: 66.06% for Macron to 33.94% for Le Pen.

What effect will the election have on us in America? The election served as a referendum on whether the French wanted to remain within the European Union. Their response is good news for investors overall, since a "Frexit" would have almost certainly led to the demise of the EU and a greater degree of global uncertainty. It is also welcome news for the French business community. Macron served as France's economic minister before he left Francois Holland's socialist party to form his new party; he is expected to make strengthening his country's corporate health a first priority. Among his campaign promises: to ease labor laws and give new protections to the self-employed, while reducing public spending and limiting public sector jobs. All of this could be beneficial for anyone invested in European stocks.

The larger question for political observers is whether the French election is a harbinger of future political shifts elsewhere around the globe. The French people, according to exit polls, were tired of the usual choices between a hard-right and hard-left candidate, and wanted to chart a course that people on both sides could agree on. That may not be possible, but it could mean that future candidates around the world will at least have to try to appeal to their country as a whole. It is also notable that Macron promised during his campaign to stand up to Russian President Vladimir Putin, while his opponent was receiving campaign loans from the Russian state.

The victory celebration will be brief, since the French will be holding legislative elections in June. Those results will determine whether the new President will be able to pass his agenda or face legislative gridlock. A full assessment of the French political impact on portfolios will have to wait another month.

A Government Balance Sheet You and I Can Read

Steve Ballmer, the former Microsoft chief executive and Bill Gates' right-hand man, has embarked on an ambitious new project that could lead to a much better-informed U.S. citizenry. He recently unveiled a comprehensive report that details everything you would want to know about the U.S. government—including its revenue and spending—not just at the federal level, but also for each of the 50 states and 90,000 local cities, towns and municipalities. The information is collected by a group of economists, professors and other professionals who have combed through publicly-available statistics to produce income statements and balance sheets just like a public corporation.

What can you learn from this? You might be surprised to know that the U.S. Federal Reserve is holding roughly $2.5 trillion in U.S. Treasuries, plus another $1.8 trillion in mortgage securities, yet has a "net worth" of just $28 billion. Some will be astonished to learn that the Social Security trust fund had almost $2.8 trillion in surpluses in fiscal 2014 (the last year for which statistics were available)—and that surplus number has been growing since 1980. In 2014, cash income ($877 billion) exceeded cash outflow ($851 billion), but that margin has been falling, and is on track to flip to negative in the next few years. More alarmingly, Medicare's cash outflows ($606 billion) exceeded income ($604 billion) in 2014, as it has since 2005.

Ballmer's federal balance sheet shows the total number of federal government employees (4 million), including 2 million related to defense. When you add in state and local employees, the total is 23.3 million employed by the state sector, including 11 million teachers, more than 400,000 involved in parks and recreation, 1.2 million police, 432,000 firefighters, 758,000 prison officials and 495,000 judges and judicial employees. Another 4.7 million work on highways, airports, harbors and other infrastructure enterprises, and public hospitals employ 1.3 million workers.

When interviewed about the project, Ballmer said that he was surprised by the number of government workers, and even more surprised to discover that, in all the rhetoric about cutting government, most of the teachers, military personnel, park rangers etc. are employees whose work most citizens appreciate.

You can go to the website (http://usafacts.org/resources/USAFacts_10-K_2017.PDF) and look up arcane government statistics like fatal workplace injuries (4,821 in fiscal 2014), children living in foster care (415,129), and the percentage of Americans who smoke (18%, down from 21% in 2004). Readers might be interested to turn to page 58 of the balance sheet and learn that the combined federal, state and local government's "net worth" in 2014, if you applied business accounting rules, was negative: about $4.271 trillion in the hole. But this was actually an improvement over 2013 ($4.3 trillion).

Life Expectancies Up—and Down

If you look at the overall statistics, it's clear that Americans are living longer. But a report published by researchers at the Institute for Health Metrics and Evaluation in the *Journal of the American Medical Association* shows that these increases are not uniform, and there are places where U.S. life expectancy is actually decreasing.

The researchers examined death certificates from 1980 through 2014, and found that residents of the District of Columbia and Loudoun County, VA are living 12% longer than they were 35 years ago. People living in Summit, Eagle and Pitkin Counties in Colorado were the longest-lived Americans, surviving to an average age of 86.

The state of Kentucky saw some of the sharpest decreases, with Owsley County reporting a life expectancy decline of 3%, while the study found greater than 1% declines in Lee, Leslie, Breathitt, Clay, Powell and Estill Counties. Alabama, Tennessee, Mississippi and Oklahoma saw pockets of decline, while people in Colorado, California, New York and Florida are gaining longer lives.

The declines are a bit alarming because the life expectancies in some of the shorter-lived countries were actually lower than lifespans in lesser-developed nations like the Philippines (68.5), Iraq (68.9), India (68.3), North Korea (70.6) and Libya (72.7).

The authors attributed the differences in mortality to risk factors like obesity, physical inactivity, smoking and diabetes, plus limited access to health care facilities—which have all been associated with poverty and unemployment. The authors of the study noted that life expectancy has become another rising gap between wealthier and less-wealthy Americans.

Robotic Unemployment and Wage Suppression

When you talk to economists, you quickly discover that they aren't nearly as worried about U.S. manufacturers outsourcing to low-wage countries as they are to a more modern form of outsourcing: to robots.

But when two economists, from the Massachusetts Institute of Technology and Boston University, respectively, looked at the data, they found that the dramatic increase in robotics since 1990 has focused on one particular part of the U.S.: the manufacturing hub known as the Rust Belt. There, factories are flourishing, churning out plastics, chemicals, pharmaceuticals, auto parts and autos themselves. But both jobs and wages are persistently falling in the midst of this corporate prosperity.

The author's research shows where the jobs are in decline due to the influx of robo-labor, although the authors note that the line is starting to blur between robots and increasingly intelligent machinery used in production. Overall, the authors found that automobiles were the manufacturing sector with the highest robot penetration, but that even in other industries, wherever robots were introduced into the business sector, there was an average decline of about a third of a percent in the employment rate and a .73% overall decline in wage growth. In aggregate, each robot replaced 6.2 workers, while a single new robot per thousand workers reduced average yearly wages by $200 apiece for the workers as a whole. The employment effects were, in many cases, twice as high for men as women in the, but the wage effects were about the same for both genders.

This is something to watch, as it suggests that a future with more robots will lead to increasingly lower employment. If the trend accelerates, as many are predicting, it could create an economy where fewer people have a salary and, therefore, fewer people can afford the items produced by the robots. When you hear about studies of the feasibility of a universal guaranteed income for all citizens, in order to prop up the consumer economy, this is where the idea is coming from.

Source:

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