THIS IS A TIME OF TENSION & TURMOIL NEVER BEFORE SEEN

HUGE RISKS AHEAD

57th TREND/FORECASTING REPORT

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INTRODUCTION

If you think the world has changed in the past year, just wait. Virtually everything is going to be different going forward, and the effect is going to accelerate on an unforeseen and unplanned course in the years ahead.

The United States is in a period of sustained economic growth, but the Country is divided as never before, and there are no signs that it will come together anytime soon.

President Trump has put one very conservative judge on the Supreme Court, and by the Fall will likely have another in place. Almost as important, he has named more than two dozen conservative appellate judges.

And throughout the federal government there have been unprecedented rollbacks in regulation at all levels.

These and many other changes are often overshadowed by President Trump's behavior, by events stemming from the Mueller investigation such as the Paul Manafort trial, and by the continuing bitter commentary from the President's critics. But the upshot is that the Country is being moved to the right in ways that could endure for many years.

A similar change is underway in Europe, where populist and nationalist parties are gaining ground in many countries. In Italy, Poland and Hungary they are in charge of the government.

In Latin America, after a long period in which democratically elected governments replaced demagogues and ruling juntas, corruption scandals have engulfed several nations, particularly Brazil and Argentina. Meanwhile, Venezuela, thanks to the extreme malfeasance of President Nicolás Maduro, is in a state of collapse.

In Africa, a continent of remarkable treasures, graft and corruption are a way of life in several countries. China is very active in Africa, working to secure the many benefits the Continent offers. The U.K.'s Theresa May has called for Britain to be the biggest investor in Africa by the end of the decade. One of the major questions in the immediate future is whether Zimbabwe and the Democratic Republic of the Congo will be able to rebuild their societies now that their imperious and incompetent leaders, Robert Mugabe and Joseph Kabila respectively, have left the stage.

The Middle East, wracked by violence and turmoil for so many years, faces further uncertainties as the civil war in Syria draws to an end with Bashar al-Assad the apparent victor. Question marks hang over Iran and how it will respond to the re-imposition of U.S. sanctions. It is clear that leadership in Iran is working hard and using every tool of social media to influence elections in the West. In Iraq, government mismanagement, high unemployment, poor public services and chronic power shortages cause widespread anger and instability.

Turkey, a key U.S. ally for some 70 years, is now under the almost complete control of Recep Erdoğan, who won sweeping, almost dictatorial powers in last June's presidential election, but is now embroiled in a no-win quarrel with President Trump. Whether the tariffs the President has imposed on many Turkish imports are justified or not, they are bound to hurt a faltering economy that Erdoğan desperately needs to revive.

And then we have Russia and China. Vladimir Putin is working to restore Russia to its former prominence, not by lifting his nation up (a hard thing to do, given its shaky economy) but by pulling other nations down. He has a long way to go, but his repeated attempts to interfere with democratic elections, his use of energy as a weapon and his schemes to sow unrest in many parts of the world are unprecedented.

China, where President Xi Jinping has been given what appears to be lifetime tenure, is active around the world, investing hundreds of billions in businesses and development projects in the U.S., Europe, Africa and South America. Beijing's primary goal, though, remains what it has long been, to dominate most of Asia.

India remains a wildcard and could play a significant role in the period ahead. Pakistan probably will not, although we need to see if the new Prime Minister, Imran Khan, can clamp down on rampant corruption, rebuild the economy and reduce widespread violence.

On the plus side, cultural mores have improved in many parts of the world and there have been several advances:

- Women's rights have improved in many regions;

- Unemployment in most countries is at all-time lows. Since Donald Trump took office, 3.6 million jobs have been added in the U.S. and the number of job openings grew larger than the number of job-seekers for the first time on record;

- Business creation has hit the highest level ever recorded in the U.S.;

- Child mortality has dropped more than 50 percent since 1990;

- Deaths from measles were about 90,000 last year, down more than 80 percent from the year 2000;

- Tremendous amounts of money are coming into the United States;

- Legal protections against discrimination based on sexual orientation are being put in place in many parts of the world;

- The number of people making $1.90 or less a day has fallen;
- Medical advances have been achieved in dozens of areas;
- The hole in the Earth's ozone layer is the smallest it has been since 1988, thanks to efforts to reduce chemical emissions. That said, global warming is real and a consensus on combating it is lacking.

Many questions still need to be answered, however. Will the issue of men abusing women accelerate or slow down? The moral outrage over the conduct of men like Harvey Weinstein, Les Moonves, Charlie Rose, Matt Lauer and other high-profile individuals continues. But there are probably hundreds of thousands of examples that are not high profile. Unless a spotlight is kept on this issue on a continuing basis, the bad conduct—and the anger and anguish it creates—will not go away.

The midterm elections will make a major statement about President Trump and his agenda. If the Democrats take control of one or both houses of Congress, look for a whole new ballgame in Washington, with investigations into almost every corner of the administration.

But at the same time, don't expect any action on big-ticket legislative items from a Democratically-run Congress. Even if it wins control of both chambers, the party won't be close to the 60 votes it would take to overcome Republican filibusters in the Senate. And President Trump can veto anything that does get through. Washington's gridlock will, if anything, get worse.

As in previous years, we append to this report forecasts for key economic areas and the Eurozone.

With this broad perspective in mind, and based on our continuing discussions over the past 12 months with hundreds of experts in diverse fields, including business, finance, journalism, the arts, academia and the non-profit sector, we have identified another set of noteworthy trends for the remainder of 2018 and beyond.

This Report, then, as it has for 29 years, focuses on critical thinking and on how you might apply it in your life, your business or whatever pursuits you follow. Though there are many demands on your time, we urge you to put aside a few moments, whenever convenient, to read it thoroughly.

We would, of course, be pleased to hear any response you might have to this effort.

Best regards,

Robert L. Dilenschneider

TABLE OF CONTENTS

TABLE OF CONTENTS
(Continued)

"There is no education like adversity."

- *Benjamin Disraeli*
19th Century British Statesman

CAN WE LEAVE WELL ENOUGH ALONE?

The U.S. and world economies are humming along. The main question: Can governments avoid messing it up?

So far, the evidence is mixed. Amid good growth and employment figures, Trump administration tariffs and proposals to cut capital gains taxes could paradoxically throttle business, dampen trade, and further swell the budget deficit and accumulated debt, while failing to solve the problems they are meant to address.

If higher deficits spook the markets and ignite inflation fears, central banks including the Fed may accelerate already planned interest rate increases. We all think these officials will act prudently, but it may be time to study the rate increases of 1994, which were too fast and too steep and smothered a promising recovery.

Carmakers and farmers, among others, would be among the hardest hit by the tariffs the administration has either already imposed or proposes. The administration is creating a $12 billion fund to offset farm losses. Most farmers say they want trade, not aid.

We have been told by top people in the administration that continued economic growth is a certainty, that money is pouring into the U.S. because of the stability of the nation, yet there is deep concern about the proportion of money owned by the top 1 percent in America (covered in a later trend).

Trump supporters say the tariff fights are necessary to level the playing field with China, for example, and will be short-lived and result in much better deals for American exporters and create millions of jobs. Non-administration economists point to past tariff battles than ended badly.

The administration might back off on tariffs and also reach favorable trade deals with Mexico, Canada, the EU and China in coming months. The capital gains tax cut may go nowhere, as former Trump adviser Gary Cohn indicated recently.

But there’s at least a real chance tariffs will stick long enough to damage American farmers, manufacturers and consumers, and lead inevitably to retaliatory tariffs, torpedoing all those trade deals. Any companies with substantial foreign exposure—and even those with none—should be taking protective steps now.

Those steps should account for a possibly transitory economic boom. As much as a quarter of the robust 4.2 percent GDP growth reported for the second quarter came from advanced sales of soybeans and other commodities. That made perfect sense and any way to advance purchases or sales before tariffs are put in place also makes sense. So does exploring alternative suppliers or customers in countries not likely to be hit by tariffs. If you’re in an interest-rate sensitive business your Rates Going Up plan needs to be dusted off.

The combination of the $1 trillion-plus tax cuts and $1.3 billion spending bill enacted by Congress will, according to the Congressional Budget Office, swell the deficit to $804 billion for fiscal 2018, top $1 trillion next year and stay above that level for the next 10 years, on present policies. Even if Democrats retake the House of Representatives in November, cutting the deficit is unlikely to be a priority.
In the past, unchecked deficits have ignited inflation, which led to higher interest rates, which slowed economic growth.

And it's not just a U.S. problem. McKinsey & Co. estimates that from 2008 to mid-2017, global government debt more than doubled, reaching $60 trillion. While this borrowing spree fueled the recovery, it may not be sustainable.

Look for an at least modest slowing of growth for the rest of the year. Goldman Sachs expects full year GDP growth of 2.8 percent, still more than half a percentage point better than in 2017. Goldman thinks the world economy as a whole will grow faster—3.4 percent—boosted by strong growth in China. This would be a good outcome, representing a sustainable continuation of the 10-year-long recovery.

JPMorgan chairman Jamie Dimon is more bullish, seeing a strong economy pushing the yields on the benchmark 10-year Treasury bill to 5 percent, a level not seen for 12 years. (They're just around 3 percent now.) The bad news is that while this would reflect a booming economy, it would also raise rates for everything from car loans to mortgages, slowing the growth of these and other sectors.

More so than in the past decade, when interest rates were essentially frozen around zero, monetary policy is going to loom large for the rest of the year. As was true with nearly all the administrations for the past 100 years, the Trump administration is pushing Fed chairman Jerome Powell to delay and limit any hikes, while Fed inflation hawks, likely including Powell, seem likely to raise rates again at least once, and perhaps twice, during the rest of the year.

Perhaps the brightest part of the U. S. recovery has been jobs. The 3.9 percent rate as of August was second only to May's 3.8 percent, the lowest in 18 years. Wages continue to inch up, though they are now rising pretty much in line with inflation, leaving many workers little better off. Many businesses are finding it hard to attract qualified workers, or finding they need to pay more. Some are also being squeezed by tighter limits on foreign-worker visas.

Stock and bond markets have generally remained at high levels, although the bond market, which has boomed for 30 years, might be signaling a top, exacerbated by liquidity problems that are becoming an unfortunate reality.

Global growth has generally held up well. One possible blackspot is Britain, as negotiations for the country's unprecedented withdrawal from the European Union, abbreviated as Brexit, are going badly.

Prime Minister Theresa May's government recently lost several of its top officials, including Foreign Minister Boris Johnson, over the issue, and foreign banks including Deutsche Bank and Credit Suisse are already moving trading desks from London to Frankfurt, Zurich, Madrid and elsewhere. Ministers have had to assure Britons that they will have adequate food after Brexit. In the face of chronic uncertainty, expect business movement away from Britain to continue.

Another worry is political and economic uncertainty, not just in Venezuela but also Argentina and Turkey. In all of these countries economic woes are threatening—or have already resulted in a diminution—of democracy. If these are indeed trends, they are worrisome.

IMPLICATIONS FOR BUSINESS:

- Use boom times to prune any lagging businesses or operations and invest in successful units.

- Develop any necessary contingency plans to adapt to higher tariffs and trade restrictions if they might apply. If relevant, boost government affairs spending to lobby for free and fair trade.

- Prepare to curb borrowing and weigh alternatives if interest rates continue to rise.

- Keep a close eye on British operations to assess and counter the impact of Brexit.

DID YOU KNOW?

45 percent of millennials prefer cash as a long-term investment, making it the most favored asset among this group.

COMING NEXT: THE MOST PIVOTAL MIDTERM ELECTIONS OF OUR LIFETIMES

Politics this autumn is dominated by the question of whether Republicans can keep control of the House or whether there will be a Democratic Blue Wave. With the Senate and House under Republican control, frustrated Democrats have been consistently thwarted in their efforts to block President Trump's agenda. For their part, Republicans hope to bolster that agenda with more tax cuts, a revision if not full repeal of Obamacare, more rollbacks of business regulations, a toughening of immigration laws and, they hope, a start on rebuilding America's infrastructure.

While some analysts are convinced Democrats will make major gains, as is traditional for the out party in midterm elections, there are others who say it could be a cliffhanger with just a few highly contested seats deciding the outcome. President Trump plans to campaign all-out and continue his Twitter attacks on opponents even as he keeps looking anxiously over his shoulder at Special Counsel Robert Mueller's probe into Russia's role in the 2016 election.

Turnout is the key this November. Without the presidency in contention, it is usually low in midterm elections. But Democratic enthusiasm seems especially high this year, based on the large number of voters who turned out in the spring and summer primaries. An even more important indicator, according to a *Wall Street Journal* analysis, is that Democrats across the country are outperforming Republicans in the race for big money from small donors.

All 435 seats in the House and 35 of the 100 Senate seats are contested. In the House, Democrats need to keep the 194 seats they now hold and flip 24 held by Republicans to win the 218 needed for control. One thing that gives Democrats hope is that 25 Republicans are in districts won by Hillary Clinton in 2016. Charlie Cook, the well-regarded, nonpartisan political analyst, estimates that Democrats will pick up 25 to 35 seats. Other analysts make it a range of 20 to 40.

There are 18 House Democrats who are not running again. That contrasts with 37 Republicans who are not seeking reelection. One of them is Speaker Paul Ryan of Wisconsin; a major ideological fight will erupt over who succeeds him as the leader of House Republicans. The outcome may determine whether the GOP leadership continues to support Trump across the board or begins to diverge from him on such issues as higher tariffs and trade wars and, possibly, even the Mueller report if its findings turn the tide of public opinion.

In the Senate, there are 47 Democrats and two Independents who usually vote with Democrats, and 51 Republicans. In the case of a tie, Vice President Mike Pence casts the deciding vote. Chances that Democrats will take control of the Senate are small. Twenty-six Democrats are up for election, compared with only nine Republicans.

The midterms are particularly critical this year because if the Democrats win the House, they will gain control of committee chairmanships. That will give them the power to hold hearings and issue subpoenas to the Trump White House, covering everything from his business practices, to his presidential campaign, to his tax returns.

While Democratic leaders have counseled their colleagues not to talk about impeachment, Republicans are trying to rouse their voters by hammering on that threat. The majority of Republicans do not want Trump impeached, no matter how much they may wince at some of the things he says and does. They are dismayed by the potential damage an impeachment might do to the party and the distraction from the President's agenda, most of which they applaud.

If Republicans keep control of the House, Mueller's tenure will be in doubt. Trump has been vehemently critical of the Special Counsel and has suggested to friends he might fire Attorney General Jeff Sessions after the election, putting Mueller in jeopardy. Sessions recused himself from overseeing the Russia probe because he was involved in Trump's campaign. A new attorney general would not have that impediment.

There have been a number of misinterpretations of the 2016 election results, based on the exit polls. With the passage of time, some clarity has emerged. For example, President Trump's base is largely made up of white evangelical voters, and their support is strengthening not weakening, despite their distaste for policies like separating immigrant children from their parents. Contrary to reports that white women gave the election to Trump, they actually preferred him over Clinton by only two points, a margin that is now eroding. And Clinton won white college educated voters by 17 points. Their disdain for Trump is growing, which is why Democrats want the midterms to be a referendum on him.

President Trump is campaigning on the strong economy, his appointment of a reliably conservative Supreme Court justice and the nomination of another, the three dozen conservative judges nominated and confirmed for lower courts, and his aggressive changes in immigration policy. He has even resorted to scare tactics, warning that if Republicans don't keep the House, a wave of violence will hit the country and that if he is impeached, the stock market will crash.

Still to be seen is whether there will be an October Surprise from the White House. The practice of taking some last-minute action or using a late-breaking announcement to knock the opposition off balance is relatively new in American politics, but it can be effective. Donald Trump specializes in catching people by surprise, so keep an eye out.

IMPLICATIONS FOR BUSINESS: If the Democrats do win control of at least one chamber of Congress, the nation will be in for a period of contentiousness that will make the past 20 months seem like a sleigh ride. What impact that might have on the economy is impossible to foresee, but be prepared for possible turmoil. One of the many conflicts will be over President Trump's policy of rolling back business and environmental regulations. The Democrats won't have much leverage, since the rollback is being carried out at the administrative level. But whatever they can do to put the brakes on, they'll do.

One more thing: After the 2018 midterms, the 2020 presidential campaign begins in earnest, based on the old political theory that it's never too soon to start.

DID YOU KNOW?

Lightning strikes more than eight million times
a day worldwide—about 93 times per second.
How hot is a lightning bolt? About 50,000 degrees
Fahrenheit, five times hotter than the surface of the sun.

RUSSIA: WHAT IS THE STATE OF PLAY?

Russia seems to be in the news every day and most times the coverage is not favorable. What is going on? What can be expected?

First point: Vladimir Putin is determined to restore Russia's standing in the world not so much by raising his own country up, but by pulling others down. Simply put, he will stop at nothing to create conflict and turmoil in nations he sees as rivals. The prime evidence for this is his interference in the 2016 U.S. presidential election, a violation confirmed by every American intelligence agency. Those same agencies say Putin has ordered new and more sophisticated efforts to influence this year's midterm elections.

Beyond stirring up trouble in vulnerable nations, Putin is more than willing to manipulate Russia's natural gas supply to bring countries that displease him into line. For example, in 2014 during the international uproar over Russia's annexation of Crimea, he cut off Ukraine's gas supplies for weeks in a clear attempt to blackmail Kiev into submission. It didn't work, but only because the international community united against him.

Many observers worry now that if the 800-mile pipeline known as Nord Stream 2—which would run under the Baltic Sea to bring natural gas from Russia directly to Germany—is completed, Putin's capacity to use energy as a weapon will be dramatically increased. The concern is compounded by the fact that Western Europe's supply of natural gas from the North Sea is beginning to run out, so its dependence on Russia to keep its economy humming is bound to grow in the coming years.

Second point: A large number of Russians are dissatisfied with where Putin is taking their country, but there is no effective opposition leadership. And whenever someone appears to be gaining traction, he or she is eliminated.

The fate of Boris Nemtsov is one of the most shocking examples. Nemtsov was a charismatic liberal politician who enjoyed a successful career in business and politics during the '90s when Boris Yeltsin was president, helping, among other achievements, to bring capitalism to post-Soviet Russia. But when Putin emerged after 2000 he became a leading critic, particularly on the issue of government corruption. Then, in 2015, he went to Moscow to help organize a rally against Russia's military intervention in Ukraine. And while walking across a bridge near the Kremlin, he was assassinated—shot in the back four times. Fear is the name of the game in Russia and everyone knows it.

Even when Putin's opponents leave Russia, they are not safe. Last March, a former Russian military officer who was working for British intelligence services, Sergei Skripal, and his daughter Yulia were poisoned in Salisbury, England, and survived only because of the skillful response of the English medical team. The U.K. blames the attack directly on the Kremlin.

Third point: There is great wealth in Russia—for a select few. But large numbers of people live in poverty with little hope of change. It's true that the poverty rate of 29 percent in 2000 was cut to 10.7 percent by 2012. But in 2016 (the last available data) it had gone up to 13.5 percent, and it has undoubtedly worsened since then.

Even Putin has publicly acknowledged that 20 million Russians live in poverty. He has vowed to change this, but it's a steep climb. The economy is energy dependent, so as long as world oil prices remain relatively low, Russia's revenues will too. Sanctions imposed by the international community for the invasion of Crimea and the attacks on Eastern Ukraine have taken a heavy toll. Agriculture would appear to be a natural source of wealth in a nation of such enormous size, but poor soil conditions in vast areas of Russia keep that from happening. And the economy's slow growth rate—forecasters expect no more than 1 to 2 percent a year in the foreseeable future—will keep those millions locked in misery.

Fourth point: Corruption is rife, infecting almost every part of Russian life. The most corrupt sectors are health care, education, housing and communal services. At the government level, the five top areas for corruption are contracts and purchasing, the issuance of permits and certificates, law enforcement, land distribution and management and construction.

The most conservative estimate is that corruption is more than 25 percent of GDP in Russia. A World Bank report puts the figure at 48 percent.

IMPLICATIONS FOR BUSINESS: Do not expect any change on the Russian front, and be very careful in any business dealings there. Always keep an eye on Putin. He may be disliked by many in his country, but he is the one who calls the shots.

DID YOU KNOW?

China, with 1.4 billion people, is now the world's second-largest economy, behind the USA with 300 million people.

TURKEY FACES TWO CRISES, ONE ECONOMIC, ONE DIPLOMATIC

The summer of 2018 seemed to start well for Turkey's Recep Tayyip Erdoğan. After 16 years of gradually accumulating political and governmental power, he claimed victory in a presidential election in late June that essentially made him his country's one-man ruler, with control over everything from the judiciary to economic and monetary policy.

And yet paradoxically, the growing concentration of power in Erdoğan's hands has helped plunge him and his nation into a multi-faceted crisis. He has mismanaged the economy so badly that it is now in tatters, heavily indebted and burdened with a raft of grandiose construction projects that deliver few real benefits for their huge costs. Turkey's currency, the lira, has fallen dramatically against the U.S. dollar, and an inflation rate running at nearly 18 percent is making basic goods unaffordable for many Turks. Trade sanctions imposed last month by President Trump have intensified the pain.

The sanctions are the result of a diplomatic standoff between the two presidents: Erdoğan wants the U.S. to extradite a Turkish cleric, Fethullah Gulen, who is living in exile in Pennsylvania and is accused of masterminding an attempted coup in 2016. Trump, for his part, wants Turkey to release an American pastor, Andrew Brunson, who has been held under house arrest for the past two years on charges of supporting the failed coup. Brunson denies the charges, and Turkey has yet to offer any proof; it certainly looks as if he is being held hostage for an exchange with Gulen.

And so what looked like a budding friendship between Trump and Erdoğan as recently as last June has deteriorated into a diplomatic contest of wills, with the U.S., at least for the time being, wielding the whip hand with its sanctions. True, Erdoğan has struck back with tariff increases on U.S. agricultural products and a call for boycotting U.S. goods and services. But with a population of just under 80 million, Turkey's ability to inflict pain on the American economy is limited, to say the least.

The conflict is a troubling development for NATO, which has always seen Turkey as a mainstay in Southwest Asia. Whether Erdoğan will want to remain in the alliance is a question now. He indicated that he may be edging toward the door when he ordered an air defense system from Russia. But he is also trying to purchase 100 F-35s from the U.S., so the signals are mixed. Further complicating the situation is the impending crisis in Syria's Idlib province, which shares a border with Turkey. Idlib is the last holdout of the anti-Assad rebels, and Syria's president is expected to launch a brutal assault to wipe them out, aided by his Russian and Iranian allies. Preventing a military and humanitarian disaster from happening—and keeping Russia and Iran from becoming even more influential in Syria than they already are—make two goals that the U.S. and Turkey share in common. There are 3.5 million Syrian refugees living in Turkey as it is. If hundreds of thousands more pour in, it could create a crisis with international repercussions.

The NATO dilemma and the Idlib question, while serious, are secondary in the minds of many observers, though. The far greater concern is that the contagion from Turkey's economic turmoil will spread to other emerging countries and possibly even to some of the weaker economies in the Eurozone, like Italy and Spain. After all, the Turks owe more than $300 billion, much of it to European banks. A collapse of the economy followed by loan defaults could trigger a financial panic.

One step Erdoğan might take to offset his country's galloping inflation is to raise interest rates, a decision he can make unilaterally since he controls the central bank. He refuses, however, claiming higher rates are "a tool of exploitation." That kind of stubbornness intensifies the pessimism about Turkey's immediate future. So too does the fact that during his 16 years in office Erdoğan has dismantled the secular tradition that goes back to the founding of the modern Turkish republic in 1923. He has also eroded the democratic system that was his route to power.

And he has virtually wiped out the country's intellectual and professional class, arresting thousands on charges that they supported the attempted coup, getting thousands more fired for the same reason, and chasing still more thousands into exile. The purge has left the top levels of the Turkish government populated with what many see as a collection of cronies, yes-men and amateurs instead of qualified managers. The key post of finance minister, for example, was just given to Erdoğan's son-in-law.

Foreign aid from some sympathetic European nations and the Gulf States may help stabilize the lira and relieve some of Turkey's financial pressures. Qatar, for one, has pledged $15 billion in direct investments. But it remains to be seen whether such aid would have a significant effect, given the corruption and incompetence that hobble so much of the government.

Shrewd politician that he is, though, Erdoğan has found the ideal scapegoat for his nation's woes: The United States. He accuses Donald Trump of waging "economic warfare" against a loyal ally, which jibes perfectly with his years-long claim that the West is trying to subjugate Turkey. It's rhetoric that plays well with the conservative Muslims who make up Erdoğan's political base.

IMPLICATIONS FOR BUSINESS: Turkey's tailspin is not going to end any time soon, so any potential business deals or investment opportunities there should be viewed with caution. Meanwhile, keep a wary eye on the economic situation. If the Turkish domino falls, it could take a lot more down with it. And watch what happens when Erdoğan attends the opening of the UN General Assembly in late September. If he's ever going to pull a rabbit out of the hat, that would be the time and place to do it.

INDIA: A MIGHTY NATION
FACES A CRUCIAL ELECTION

India, while not in the public eye like China or Russia, is a nation that is going to have a major impact on the world and must therefore be reckoned with. One reason is sheer size: With a population of 1.36 billion, it is expected to surpass China's 1.38 billion in the next few years.

How India handles its emerging role will depend heavily on the outcome of elections for the Lok Sabha (the national legislature) to be held in April and May. Although Indian politics are notoriously mercurial and opinion polls often unreliable, all indices point to the return to power of the National Democratic Alliance (NDA), a coalition whose largest component is Prime Minister Narendra Modi's Bharatiya Janata Party (BJP).

The BJP is commonly described as Hindu-nationalist in recognition of both its assertive nationalism on the global stage and its unapologetic espousal of Hindutva, or Hindu-ness, as a domestic political credo. (Hindus are 82 percent of the population.) It is also the most business-friendly of India's mainstream political parties.

But if Modi's coalition returns to power in 2019, it will probably be with a notably reduced majority. The coalition won 336 out of a total of 532 Lok Sabha seats in the 2014 elections, but is now expected to struggle to reach the 272 seats required to form a government. If it falls short of the magic number, it will need to add coalition partners. That should be achievable, given the unabashed nature of political horse-trading in India. But it may result in a bloated cabinet, with ministerial posts allotted to parties whose only function is to shore up the coalition. That won't enhance the quality of governance, and may be a recipe for corruption.

Why has the Prime Minister's support declined?

First, the growing level of political and religious intolerance has taken the shine off Mr. Modi, whose articulate, modernizing image abroad is at odds with his domestic profile. He delegates power unwillingly and has one of the least impressive cabinets measured by intellectual caliber in the history of modern India. Too much power rests with him, and too little with most other ministers, creating the impression that Mr. Modi is a "presidential" prime minister.

India is no stranger to autocratic prime ministers, but Mr. Modi compounds the feeling of unease by his hostility to—and aloofness from—the media. He rarely, if ever, gives interviews, and when a journalist has access to him, it is under strictly regulated, almost sycophantic conditions. There are echoes of Donald Trump here: Mr. Modi is partial to Twitter (although he never tweets with the obvious indiscipline of the American president) and has an army of trolls at his command to make life difficult for his media critics.

Second, the country appears not to have forgiven Mr. Modi for the sudden, startling and ultimately mismanaged demonetization in November 2016, which removed at a stroke all large-denomination rupee bills from circulation in a bid to fight black money and corruption. Subsequent analyses have shown that these goals were not achieved; instead, demonetization resulted in massive hardships for working- and middle-class Indians, many of whom will remember the pain when they go to the polls next year.

All this coincides with a noticeably improved political performance—in parliament and outside—by Rahul Gandhi, the once-derided leader of the Congress Party. There is talk of a grand national coalition to fight Mr. Modi's NDA in the election, although it is hard to see how such a coalition—comprised as it would be of a motley collection of ideologically disparate and regional parties—could ever agree on a coherent platform. The BJP looks set to exploit this incoherence, offering itself as a party with shape and substance, as opposed to the amorphous creature that is likely to emerge in opposition. And there is no question that Mr. Gandhi, for all his recent improvements in eloquence and self-confidence, is no match for Mr. Modi as an election-winning politician. Mr. Modi is still the master, Mr. Gandhi the novice.

Externally, India seems to have shaken off its initial apprehensions about Mr. Trump's presidency, and the partnership between Washington and New Delhi appears to be robust, especially on defense issues. Defense Secretary James Mattis and Secretary of State Mike Pompeo helped advance the relationship earlier this month when they traveled to New Delhi to sign an agreement for India to buy advanced U.S. weapons and technology. There is—and will continue to be—turbulence on the trade front, but India can console itself that trade is an area in which many nations have problems with the Trump administration. And in Mattis and Pompeo India appears to have two friends who are acutely aware of its value to the U.S. in dealing with China.

India feels the China threat acutely, both in terms of its territorial ambitions and its increasing curtailment of freedom of navigation in the South China Sea. On this issue, the U.S. has a staunch partner in India, even though the words "ally" and "alliance" are carefully omitted in all bilateral Indo-American communiques. (India still suffers from a postcolonial hypersensitivity to formal alliances, viewing them as diminutions of its sovereignty.)

IMPLICATIONS FOR BUSINES: Investors should be aware that India is the world's fastest-growing major economy, a trend likely to continue if Mr. Modi is reelected. A victory for Mr. Gandhi would be less welcome news, since his Congress Party could only rule with the support of parties that range from avowedly socialist to market-skeptical. The danger to growth, however, lies not in the likelihood of a Congress-coalition win, but in the BJP's abandonment of market-oriented policies in favor of a frankly jingoistic and religiously partisan agenda ahead of the elections. The party has always had two faces: a free-market side and a Hindutva one. The former was emphasized in 2014 as Mr. Modi sought to reassure sceptics that he was sufficiently statesmanlike to be prime minister. The worry now is that he will emphasize his party's more religiously intolerant side as he fights to stay in power.

WHAT CAN WE EXPECT FROM THE BAD GUYS?

There are well over 1,000 ISIS fighters from 50 countries in Middle Eastern jails. Many are from Muslim countries like Egypt, Morocco, Saudi Arabia, Tunisia and Turkey. But about 80 are from Europe, including some 40 Russians and 10 to 15 each from France and Germany.

The question that confronts Western leaders is what to do with them. Their home countries, by and large, do not want them back, so most are kept in makeshift prisons in and around Syria where they were captured. Leaving them there indefinitely is not a viable option; beyond the legal questions that would raise, there is the simple fact that local authorities, even with the support they get from the U.S. military, don't have the financial resources, manpower or willingness to run permanent maximum security facilities.

Besides that, there is the painful lesson that recent experience teaches. After the Iraq war, thousands of militants, including Abu Bakr al-Baghdadi, the current leader of the Islamic State, were held for years at an American detention facility on the Kuwaiti border. The longer they remained imprisoned, the more radicalized they became.

It is this same threat of radicalization that explains why many European countries are unwilling to take back their own citizens. They worry that if these battle-hardened fighters are placed in regular lockups, they will convert domestic prisoners to their jihadist cause.

Some inside the U.S. government are weighing whether to bring at least some ISIS soldiers to the Guantánamo Bay prison in Cuba. But that could raise still another danger: Guantánamo is one of the most powerful recruiting tools terrorist organizations like the Islamic State and Al Qaeda have. They hold it up as the ultimate symbol of Western aggression against Islam.

Locking up ISIS prisoners at Guantánamo would remove some fighters from the field. But they are likely to be replaced by many times their number.

IMPLICATIONS FOR BUSINESS: This is truly a damned-if-you-do, damned-if-you-don't situation. The responsibility for dealing with it rests, of course, with the U.S., which led the battle to destroy the ISIS caliphate, and the countries from which the ISIS fighters originally came. But no one should expect a comprehensive solution anytime soon—there are no good options. The threat of Islamic State terrorism has not ended, just mutated into a new form.

THE FUTURE OF JIHAD:
IS THERE REASON FOR CONCERN?

Jihad—which literally means struggle, but has come to mean the holy war waged on behalf of Islam—is far from over.

Individuals who are part of jihadist organizations like al-Qaeda, ISIS and similar groups are spread across the Muslim world and operate in Iraq, Syria, Afghanistan, Libya, Nigeria, Somalia, Yemen and a half-dozen other countries.

Is this terrorist movement religiously driven? Yes in part, but it is also economic. Leaders of these groups recognize that the lives of their people will never be as full as the lives of people in the West and the only thing they can think to do about it is to lash out in anger and create turmoil and terror.

Expect terrorist attacks to continue in the U.S. and Western Europe. But of note, there are also wars going on within the Islamic world driven by extremists trying to establish dominance over other Muslims. The brutal fighting in Yemen, where one side is backed by Sunni-dominated Saudi Arabia and the other by Shiite-run Iran, is the worst example of this conflict between two opposing branches of Islam. The devastation that al-Shabab is causing in Somalia is yet another case. So is the Taliban in Afghanistan.

Are all Muslims dedicated to jihad? No, most definitely not. Serious research shows that overwhelming majorities in Muslim-dominated countries are opposed to terrorism and other violent activity.

What is being done? Military actions including drone strikes by the U.S. and some European governments are under way, but this often has the effect of pushing Muslims who are on the edge to become radicalized. Little is being done in the way of communication and education. On the other hand, ISIS is very active on the propaganda front in Muslim countries and even in the West. Amaq, the official news agency, remains very active on social media.

In the U.S., Muslims are about 1 percent of the population. Many say they experience discrimination. Thirty-two percent say they are treated with suspicion. And 17 percent say they have been called offensive names.

IMPLICATIONS FOR BUSINESS: Be careful operating in Muslim countries; take steps to protect your people. Recognize that this is going to be a long-term effort.

WAHHABISM: A CONTINUING THREAT TO THE WEST

Saudi Arabia is in the news nearly every day. The Country has a new leader, Prince Mohammed bin Salman. The Saudis are in conflict in Yemen, with Canada and a half-dozen other places.

And then there is Wahhabism, a phenomenon we have reported on for some time.

For several years we have worked to alert readers to a subtle but powerful movement that threatens the West—Wahhabism, the doctrinaire form of Islam that dominates Saudi Arabia and has been working for decades to spread its extremism throughout the Islamic world.

Prince Mohammed bin Salman, who has taken over in Saudi Arabia, is trying to change life there—allowing women to drive, opening movie theaters, working to reduce graft and corruption.

The Saudi Royal Family has deep ties with Wahhabism, which advocates a narrow reading of the Quran and the Hadith and attacks any deviations from its rigorous practices.

This fundamentalist approach has led the Wahhabis to oppose modern Western values and to teach children in the schools known as madrassas that it has opened across the Muslim world—often with Saudi financing—to hate those values too.

Throughout the 20th century, the monarchy dominated Saudi Arabia's political and military life. But in order to forestall domestic unrest, especially attacks on the free-spending ways and playboy lifestyles of many of the royal family's princes, it allowed the Wahhabi clerics to take charge in the religious and social spheres. The clerics proceeded to create Islamic courts, media organizations and militant organizations such as the Muslim World League.

Three dramatic events in 1979—the Islamic revolution in Iran, the attack on the Grand Mosque in Mecca by extremist insurgents calling for the overthrow of the House of Saud, and the Soviet invasion of Afghanistan—proved to be of enormous help to the Wahhabis in spreading their message of religious zealotry. The power of religious police in many countries was increased, and harsh corporal punishment, especially for those accused of blasphemy, became widespread. So did the segregation of men and women in public spaces. And financial support for jihadist groups and Sunni extremists increased sharply, with much of the money coming from Saudi Arabia itself.

In return for the House of Saud's tolerance for this extreme behavior, the Wahhabis have supported the family against its enemies, including Iran's Ayatollah Khomeini, Iraq's Saddam Hussein and Egypt's Muslim Brotherhood. This tacit partnership appears to be still locked into place despite Prince Mohammed bin Salman's efforts to modernize his nation.

IMPLICATIONS FOR BUSINESS: Many in the Western world are optimistic about Mohammed bin Salman's campaign to bring Saudi Arabia at least part way into the 21st century, particularly his determination to diversify his nation's economy so that it is no longer almost wholly dependent on oil revenues for its income. If the campaign is sustained, it should open up promising business and investment opportunities in the kingdom. But interested parties must bear in mind that the ties between the Saudi monarchy and the Wahhabi religious establishment have not been broken. That could spell all kinds of trouble for Westerners, both there and abroad.

DID YOU KNOW?

Food now accounts for under 13 percent of the average U.S. household budget.

EXPECT EUROPE TO CHANGE

The European Union is under serious challenge. Its membership will drop from 28 to 27 when Brexit—the British exit—is completed. New leaders in Hungary, Poland and Italy are questioning their future in the Union. The European alt-right is inflaming nationalistic feelings as the continent heads into crucial elections next spring. And Europe's dependence on energy from Russia is strengthening the hand of Vladimir Putin, who clearly wants to weaken the Western alliance and its key institutions like NATO.

Steve Bannon, one of the architects of Donald Trump's 2016 presidential victory, has been active in several places, including France, Italy and Germany. His goal is to establish a continent-wide movement that unites populist and nationalist voters in the European parliamentary elections to be held next May. He has said that he will spend 70 percent of his time in Europe once the November midterm elections in the U.S. are over.

Just how effective Bannon will be remains to be seen, but he certainly has several populist parties he can work with as they gear up for the parliamentary elections. In Italy, a coalition of two Euroskeptic parties, the Five Star Movement and the Northern League, controls the government. France's right-wing National Front won a major share of seats in the EU elections of 2014, and while the party fared poorly in the French presidential election last year, it still retains plenty of popular appeal.

In Germany, Angela Merkel continues to serve as Chancellor, but last year's elections forced her into a coalition with the Social Democrats in order to hold the increasingly popular anti-immigrant Alternative for Germany party at bay. In fact, the immigration issue remains a potentially explosive one throughout Europe, helping to advance nationalist movements in countries as diverse as Sweden, Poland and Hungary.

As for Putin's determination to disrupt the West, no one can ignore his ability to launch cyberattacks on democratic elections. The European Union may be better positioned to defend itself from such attacks than the U.S., but the threat is there.

So is Russia's ability to damage Europe's economy by shutting off the supply of oil and natural gas. But that is a double-edged sword. The fact is that energy constitutes 52 percent of Russia's GDP—and that GDP is slightly smaller than New York State's, which comes in at just over $1.5 trillion. GDP per capita in Russia was only $8,748 in 2017, far lower than in 2013, which means the standard of living is actually declining. Putin—who devotes 20 percent of the Russian budget to military spending—would inflict far more pain on his own country than on the EU if he ever shut off the oil and gas pipeline.

IMPLICATIONS FOR BUSINESS: Watch developments closely, as success for Europe's populist and nationalist movements could bring about new and different conditions for businesses operating in European countries.

IS THE EUROPEAN UNION FOR REAL?

The dream that 28 countries could come together in a European Union to achieve social, economic and perhaps even political unity has yet to be realized.

Individual EU countries continue to elect their leaders, issue passports, oversee separate legal systems, cut trade deals and set monetary and fiscal policy. Each country has its own constitution, border controls, welfare rules, military organization, diplomatic corps and health care system. And each maintains the right to tax its citizens and issue debt.

Yes, there is a common currency (the euro). EU citizens can travel freely within the Union (visitors, too) and work wherever they can find a job regardless of nationality. The old anti-competitive, mercantilist policies that once roiled Europe are gone. And a continent that for its entire history couldn't go more than a year or two without war breaking out somewhere has been at peace for nearly three-quarters of a century.

But like the language barriers that still remain, national identities are still the dominating factor. A true unity and sharing of sovereignty among the countries of the EU simply doesn't exist. In fact, strong nationalist movements are on the rise in several places—most notably Poland, Hungary and Italy where they dominate the government. These movements are driven by an anti-immigrant rage that is a direct result of the EU's open border policy. Brexit is the British manifestation of this.
So the question is, will the EU even come together as more than just a label? Maybe. But bringing the member states into line will take a lot of time and will require leadership that is not now present.

IMPLICATIONS FOR BUSINESS: In the short term continue to navigate country by country. Keep a weather-eye out for changes in the areas cited above, but expect whatever happens to be glacial.

DID YOU KNOW?

Beginning next year, it could be possible to make a cell phone call from space. A German company has teamed with Nokia to build the first 4G network on the moon in 2019.

THE REFUGEE ISSUE IS CHANGING EUROPE

European Union leaders reached an overdue agreement in June on how to deal with the pressures of migration in talks held in response to Italian demands for more help with its refugee struggles.

The agreement is designed to ease the pressure on point-of-entry nations like Greece and Italy, bolster the EU's borders and improve solidarity among member nations. It calls for the screening of migrants in North Africa for asylum eligibility and the creation of control centers by nations that are willing to accept those who qualify for asylum.

If the new procedures work out as hoped, they should help reduce the flow of refugees into Western Europe, which is already down from its 2015 peak. Still, the fact remains that more than 5 million refugees from Africa and the Middle East have entered Europe in the past five years, well over 1.1 million into Germany alone.

Those facts have been frequently reported. But what is not so well-known is the changes the refugees are making in Europe. The cultures and economies of many nations are feeling the impact—and the politics even more so.

Many Europeans are anxious about protecting their national identities in the face of people who have different religions, traditions, values and even diets; who don't speak the language or know the history, and whose ideas about acceptable social conduct frequently conflict with their own.

There are grave concerns over the impact refugees will have economically, especially on the workforce. People worry that the influx of low-skill laborers who are desperate for any kind of job may drag down wages. And Europeans fear their nations' treasuries will be drained by the need for supportive services for the refugees.

Security fears run high as crime has accelerated in many ways, from petty thievery to outright larceny and murder. In Germany, for example, the federal police have reported that in 2016 immigrants were responsible for 11 percent of the violent crime, 16.6 percent of all thefts, 10 percent of fraud cases, 7.6 percent of drug crimes, 9.1 percent of sexual crimes and 15 percent of all crime resulting in the loss of life. The percentage of sexual offenses where at least one suspect was an immigrant increased from 1.8 percent in 2012 to 9.1 percent in 2016.

And in Sweden, police have described gangs of recently arrived youth making the central shopping mall of Gothenburg unsafe at night with muggings and violence between drug gangs from Morocco, Afghanistan and Syria.

Beyond the disturbing crime statistics, Europeans fear that some of the newcomers may be terrorists sent by al-Qaeda, ISIS or another violent groups to mingle among genuine refugees until they are given orders to strike. No one knows how great this threat may be, but it is a haunting concern.

All this plays into politics of various European countries where nationalist parties with anti-democratic and authoritarian agendas are making significant gains at the ballot box by fueling the anti-immigrant, anti-EU fever. Poland and Hungary already have nationalist governments. Parties with similar appeals have made strong showings in Italy, Germany, Austria, Belgium, Denmark and Finland.

IMPLICATIONS FOR BUSINESS: There are an estimated 65 million refugees in the world today, so the convulsions Europe is undergoing are far from over, and hardly limited to that one continent. How serious the impact will be on economic development and investment opportunities is yet to be determined. But it seems clear that the European tilt against democratic governments that have independent judiciaries and operate under the rule of law could have a long-term negative impact on the business climate. Something like that happened in the '20s and '30s, and we all know how that turned out.

DID YOU KNOW?

A Harvard study finds that the average CEO spends 72 percent of his or her time in meetings.

DEMOCRACY IN RETREAT, FREEDOM IN DECLINE

Promoting democracy, human rights and individual freedom has been a hallmark of American foreign policy since the end of World War II. It is a cause that U.S. allies have also supported, with varying degrees of enthusiasm. But now the tide appears to be turning as increasing numbers of once-democratic nations turn themselves over to authoritarian rulers.

According to the latest Democracy Index report, the percentage of the world's population that lives in a "full democracy" has fallen to less than 5 percent. Less than half of the world's population lives in a democracy "of some sort," and one-third of people live in outright authoritarian regimes.

University of Michigan Professor Ronald Inglehart has gone so far as to say the world is experiencing the worst democratic setback since the rise of fascism in the 1930s.

There is no single reason why this shift is taking place, since so much depends on the conditions in a particular country or region. (As the late Tip O'Neill taught us, all politics is local.) But one explanation is that the introduction of democracy in the newly independent post-colonial nations of Africa and Asia was frequently accompanied by rosy predictions of lasting peace and prosperity. The disappointment when these benefits failed to materialize has been so deep in many places that people have turned to strongman-rulers peddling utopian promises. Either that or, as often happened in Africa, the strongmen overpowered the immature institutions of democracy and seized control.

In parts of Europe there has been a rise in support for authoritarian, xenophobic political parties that is galvanized by the flood of refugees crossing the Mediterranean to escape wars and famines in Africa and the Mideast. (The U.S. is not exempt from this phenomenon: The debate over how to deal with immigrants fleeing poverty and gang violence in Central America looms large in the coming midterm elections.)

Sometimes people vote in democratic elections for non-democratic leaders. "One person, one vote, one time," it's been called. Probably the worst example in history took place in Gaza in 2006 when the citizens of that tiny enclave voted Hamas into power. They have never cast another ballot since then, and probably never will.

Something similar has happened in Turkey, where conservative Muslims have given President Recep Erdoğan a succession of victories, the most recent of which installed him as a near-dictator with sweeping powers over the parliament, the economy, the courts and the media.

Voters in the Philippines elected Rodrigo Duterte in 2015 knowing that he intended to ignore the rule of law and order the police to shoot suspected drug dealers on sight. These summary executions have taken the lives of thousands, many of them, human rights advocates say, innocent citizens mowed down by quick-on-the trigger cops.

And in Hungary, until recently a bastion of freedom and democracy, voters have installed Viktor Orban as prime minister despite his opposition to “liberal concepts” like civic rights, his repeated appeals to reactionary nationalism and, more recently, his unapologetic xenophobia.

Of course, some elections are billed as free and democratic when in fact they’re rigged. The reelection of Vladimir Putin as President of Russia is one outsized example. So was the election in May of Nicolás Maduro to a second six-year term in Venezuela.

And then there are the places that don’t even bother with the trappings of democracy in choosing their leaders and their form of government. North Korea, China, Saudi Arabia and several of the former Soviet states in Central Asia are on this list.

Most worrisome are the nations where democracy and its freedoms haven’t disappeared, but the trend line is dangerous. In East Asia, Vietnam, Cambodia, Myanmar and possibly Indonesia fall into this category. There are even disturbing signs in Western Europe with the rise of nationalist parties in Italy, Germany, France, Poland and Sweden.

Winston Churchill famously argued that democracy is the worst form of government except for all the others. Less well-known is his observation that the best argument *against* democracy is “a five-minute conversation with the average voter.”

Both comments contain a lot of truth. But perhaps an even better insight comes from political philosopher Francis Fukuyama. He argues that despite the optimistic assumptions of many American and other Westerners, “liberal democracy is not the default position” of societies. That is to say, many societies have been organized for centuries along religious or tribal or economic lines. Give those people a choice, especially when times are tough, and their first instinct is not to embrace a free and open system. It is to put the people they identify with, no matter how brutal or corrupt they may be, in charge.

IMPLICATIONS FOR BUSINESS: In doing business with or investing in foreign countries, solid democratic institutions are always an advantage, including a legal system based on the rule of law, civil rights and freedom of movement. The decline of democracy globally is, therefore, a threatening development. But the trend is not necessarily permanent. Despite his bleak outlook on what has happened so far, the University of Michigan’s Professor Inglehart believes that “all is not lost. Today’s democratic decline can be reversed if rich countries address the growing inequality of recent decades and manage the transition to the automated economy.”

THE OBAMACARE FIGHT GOES ON

Congress may have failed to repeal the Affordable Care Act last year, but the Trump administration continues to chip away at the law—what some describe as "death by a thousand cuts." Among the Trump administration's initiatives:

1. The mandate that penalized individuals for failing to buy health insurance was abolished by last year's tax overhaul bill. President Trump has said this means "we have repealed Obamacare," although it is only one provision of the ACA.

2. The administration is dramatically scaling back outreach programs. The Centers for Medicare and Medicaid Services has announced a 70 percent cut—$26 million—to the "navigators" program that helps qualified individuals sign up for insurance through Obamacare. That follows a 40 percent cut last year. Navigator funding has fallen from $62.5 million in the last year of the Obama administration to $10 million now.

3. The administration eliminated the cost-sharing subsidies that reimbursed insurers for reducing the deductibles and co-pays of some 7 million lower-income Obamacare enrollees.

4. The administration is offering temporary health insurance plans that, while cheaper than those provided by the ACA, do not offer the same broad coverage. The plans do not require insurance companies to cover pre-existing medical conditions; they are allowed to place dollar restrictions on coverage, and they do not have to offer other ACA-mandated coverage such as maternity care, mental health and prescription drugs.

5. The administration has released a final rule governing association health plans, which allow small businesses and the self-employed to band together to buy health insurance. These plans will likely have lower premiums, but will provide fewer benefits, which could leave sicker and older workers out in the cold. Also, the plans will be less attractive to young women if they don't cover maternity benefits.

6. In a federal lawsuit filed by Texas and several other states seeking to overturn the ACA, the Justice Department has announced that it won't defend a core provision of the law—one of its most popular—the guarantee of coverage for preexisting conditions.

On the other hand:

1. Almost 12 million people are enrolled in Obamacare coverage, only a slight decrease from the previous year.

2. According to the Centers for Disease Control and Prevention, 19.3 million more people had health insurance in 2017 than in 2010 when the Affordable Care Act was passed.

3. Since passage of the ACA, which provided incentives for states to expand Medicaid coverage, enrollment has grown 28.8 percent. Today, 34 states have expanded Medicaid, including a number of Republican-led states. Some 74 million Americans receive Medicaid. Nearly 8 in 10 adult Medicaid beneficiaries live in a working family and 60 percent are working themselves.

4. After years of pullbacks, insurers are increasing their footprint in the ACA marketplaces next year. Rising premiums in the marketplaces are enticing insurers, who are looking past the political turbulence. More than a dozen insurers plan to enter new Obamacare markets for 2019, according to the Kaiser Family Foundation.

5. Democrats now believe Obamacare is a positive issue for them as they campaign for the November elections.

IMPLICATIONS FOR BUSINESS: Expect the politically divisive debate over Obamacare to continue, with further efforts by the Trump administration and Congressional Republicans to undercut or even repeal the law. Democrats, on the other hand, see affordable health care as a positive election issue for them, with Obamacare markets not only stabilizing, but expanding, and even Republican-led states expanding Medicaid under its provisions. There will be more litigation, but barring a major surprise in court or legislatively, it appears much of Obamacare will be here for the foreseeable future.

DID YOU KNOW?

69 percent of U.S. investors worry
about rising health care costs—the most of any country.

GETTING PREPARED FOR CUSTOMER DATA BREACHES

The number of data-breach incidents in the U.S. hit a record high of 1,579 in 2017, according to the Identity Theft Resource Center. That represents an increase of 44.7 percent over the previous record set in 2016.

Hacking continued to rank highest in these types of attacks, at 59.4 percent of the breaches, up 3.2 percent over 2016. Of the 940 hacking incidents, 21.4 percent involved phishing and 12.4 percent involved ransomware/malware.

According to IBM Security, the average time to identify a data breach is a lengthy 197 days, and the average time to contain a data breach once it is identified is 69 days. And breaches are expensive, according to IBM.

Companies that contained a breach in under 30 days saved over $1 million compared with those that took more than 30 days ($3.09 million vs. $4.25 million on average).

Aside from the serious financial repercussions of any breach, there are major legal and reputational issues:

1. *Delays in notifying authorities and customers about a breach.* Complicating the issue is that there is no national standard. All 50 states and the District of Columbia have data breach laws with different requirements and varying levels of protection for users. The European Union has just enacted new breach notification requirements, and the U.S. Department of the Treasury has proposed a federal notification standard as well as data protection standards.

2. *Communications with investors*. Despite the absence of any national notification standard, there are potential federal liabilities when it comes to investors. In April, the Securities and Exchange Commission hit Yahoo with a $35 million fine for failing to disclose its massive cyberdata breach to investors for nearly two years. It was the first time the SEC punished a company for such conduct.

3. *Plans/protocols in place to notify customers*. It is clear by now that companies that are slow in informing the public that their data may have been breached will suffer a serious black eye. Not only do companies need to be upfront about the problem, they must be able to say what steps are being taken to address the issue and what system is in place to respond to customer concerns. Equifax came in for heavy criticism amid allegations that it waited six weeks to alert the public after as many as 143 million customers had their data compromised. CEO Richard Smith was forced out.

Among the items that should be in every company's tool kit in the age of cyber threats are these:

- An IT team that is prepared to raise an alarm as soon as suspicious activity is spotted.
- A protocol to articulate in lay terms what systems are in place to protect customer data.
- A contingency plan for both internal and third-party investigations into a breach.
- A board of directors that is up to speed on the company's systems for protecting data and its plans in the event of a breach.
- Insurance in place to reimburse those who are harmed.
- Given the inevitable litigation that will follow a serious breach, internal and external legal teams that have been thoroughly vetted.
- A communications plan for employees on how to protect themselves and the company from malicious emails and viruses.

IMPLICATIONS FOR BUSINESS: Data breaches are not going away. Every business should have a plan for when one occurs.

DID YOU KNOW?

Last year 59 chief executives of S&P 500 companies left their position.

INCOME INEQUALITY:
COULD BE A TIME BOMB

While the economy moves along at more than a 4 percent growth rate, unemployment is almost nonexistent and money is pouring into the U.S. because of the Country's stability, income inequality is higher than it has been since 1962.

The wealthiest 1 percent of Americans own 40 percent of the Country's wealth—more than the bottom 80 percent of America.

Only the richest 10 percent of Americans saw their net worth rise over the past decade.

The top 20 percent of households in America own 90 percent of the assets in this Country.

To be sure, the U.S. has one of the highest levels of income inequality in the world. Americans under 35 have seen their net worth shrink in recent years.

The top five states where income inequality is present are New York, Florida, Connecticut, Nevada and Wyoming.

IMPLICATIONS FOR BUSINESS: Those at the lower end of the economic scale are figuring out that life is not fair to them and, in time, are likely to act on their own behalf.

THE INCREDIBLE SHRINKING STOCK MARKETS:
DISASTER OR NOT?

There is no question that stock markets in the United States are shrinking, and substantially. Roughly 3,600 companies were listed on U.S. exchanges in 2017, down more than half from 1997. IPO issuance has swooned by 71 percent from 1999 to 2017, falling from 486 to only 160 last year, particularly in small-caps (less than $50 million), which continue their decline of the past 20 years. What is more, profits of those publicly traded companies that remain are being overwhelmingly skewed to the mega-companies—particularly the digital giants—as the top 200 companies by earnings accounted for virtually all the profits on the stock market in 2015, according to a University of Arizona study. The other 3,400 companies didn't make money, they *burned* it, as *The New York Times* put it.

Is this state of affairs the disaster that it very much seems to be for investors, small companies and "one of the great innovations of American capitalism—the public company," as a *Bloomberg* editorial put it? Or is it a natural evolution of modern finance with as many positives as negatives?

The disaster view has it that the number of public firms is not just shrinking (on a per-capita basis, that puts the U.S. now slightly ahead of Venezuela), but that the gains are going to fewer and fewer winners. The very nature of public firms has also undergone a radical shift, as capital-intensive companies are being replaced on a significant scale by those heavily dependent on intellectual capital, with an attendant loss of transparency. IP companies are often reluctant to share, for competitive reasons, many of the details on which investors, analysts and potential lenders base their evaluations. Funding becomes an issue for these IP firms, and a logical alternative becomes private investors, who can shield much of such inside information from public view.

The end result, as the *Times* put it, is that we know far less about "many of the creators of American profits and jobs than would otherwise be the case.… *That* is worth worrying about."

Or is it?

Access to capital for these newcomers hasn't really dried up. Even the giants that have never gone public such as Uber and Airbnb are able to attract billions in capital and achieve dizzying valuations in the tens of billions. What is more, as the *Bloomberg* editorial argued, venture capital firms are increasingly selling their holdings directly to publicly traded companies, whose deep pockets and resources can help the newbies grow by quantum leaps.

Nor are public investors completely shut out: "Institutional investors now channel more and more of common investors' savings towards digital companies by taking stakes in private equity funds," as four professors noted in a *Harvard Business Review* article, "Why We Shouldn't Worry about the Declining Number of Public Companies." The professors argue that reliance on private investors is in many ways a positive, not a negative. Private investors better understand business models of digital and IP entities than passive investors (the authors cite "day traders"), can widen the circle of other investors who are invited in to participate at critical developmental stages, and have the luxury of time on their side, since they don't need the immediate profitability that public investors so often demand.

Then, too, there is the cost and drain on management inherent in an IPO, and the absolute need for speed, adaptability and lack of bureaucracy if an upstart digital company is going to attack a market space, or even an industry giant.

The HBR professors' final takeaway: "In sum, the decline in the number of listings is a sign of successful adaptation of organizational structures by U.S. corporations, keeping up with their changing business strategies. It should be applauded, not considered a cause for concern."

IMPLICATIONS FOR BUSINESS: Stock markets are shrinking, and will shrink more "as financial activity of all stripes is moving away from public markets," as *The Wall Street Journal* said in a story on how Goldman Sachs and others are horning in on after-market trading. But the *Journal* also noted that in this instance the interlopers' pricing and activities will be anything but transparent. "To me it's a black box," said one trading chief. And that, in a nutshell, sums up one of the problems with a shrinking public market. For all their flaws, public markets are models of transparency and liquidity when measured against all other alternatives, and they function as the only grown-ups in the room when others are losing their heads in a market panic. We shrink them too much at our own peril.

DID YOU KNOW?

60 percent of Americans believe corporations should not get involved in political issues.

THE "EAT-WHAT-YOU-KILL" MOVEMENT GAINS STEAM

In June, Japan's massive ($1.5 trillion) Government Pension Investment Fund (GPIF) made an announcement that sent shivers down the spines of professional investors around the world: From this point forward, the managers who invest the fund's assets will eat only what they kill.

In less dramatic terms, the pension fund announced it was moving to a "pay-for-alpha" system in which managers investing the fund's assets using active strategies will get paid only when they actually outperform the market, or create "alpha," as the industry likes to put it. "Without excess returns, their fee must be equal to that of passive managers with the same amount of asset size," the GPIF said.

Traditionally, active asset managers charged institutions a set annual fee based on the amount of assets they were allocated. These fees average about 40 basis points, or 0.4 percent of the assets. Fees are lower in fixed income (averaging about 20-25 bps, depending on the strategy), and higher in non-U.S. equities (in the neighborhood of 45 bps). Alternative investments like hedge funds and private equity are in an entirely different—and much more expensive—category.

With institutional mandates frequently sized in the hundreds of millions or even billions of dollars, it's easy to see why asset management CEOs are losing sleep over the prospect of losing out on these fees.

But for institutions—and potentially all other investors—the "eat what you kill" movement is long overdue. It's a proven fact that most active investment managers fail to outperform their benchmark indexes over long periods of time, meaning that investors are not getting their money's worth.

Furthermore, the reliability of asset-based active management fees gives asset managers a strong incentive to focus their efforts on gathering assets as a means of growing revenue. As the GPIF said in its release: "Our external asset managers have tended to focus on getting more [assets] from GPIF and to avoid taking appropriate risks required to achieve their target alpha. By introducing the new fee structure, we would like to build a win-win relationship between GPIF and external asset managers."

IMPLICATIONS FOR BUSINESS: The GPIF announcement is a sign that things are finally changing in the world of asset management. Big institutions around the world and in the United States are likely to follow suit, and so corporate executives should ensure that their companies and their own personal investment portfolios are not missing out on the benefits of this sea change.

Asset managers are more willing than ever to negotiate on fees. They have to be flexible, due to the fact that investors around the world are wising up and abandoning active strategies in large, efficient, development markets in favor of lower cost indexing. This pressure should push the asset management industry in a positive direction. After all, the GPIF's new fund structure has no limit on the "upside" fees a manager can earn by beating the market. Managers who can actually deliver the outperformance they promise will be amply rewarded, and investors will get exactly what they pay for. That change is occurring first in institutional finance, but will eventually make its way to individual investment accounts and 401(k)s as well.

REGULATION IN THE USA

Since President Trump took office there has been a remarkable reduction in regulation in the USA:

- For example, one of the most controversial moves is the open-internet appeal known as "Net Neutrality." The FCC reversed Obama-era protections preventing internet providers from blocking or slowing down internet access;

- Media Ownership—The FCC voted to reverse or revise several rules that restricted ownership of local media outlets, particularly, TV stations;

- In September 2017, the Mine Safety & Health Administration proposed to weaken metal/non-metal mine safety inspection requirements;

- President Obama’s new fiduciary rule designed to ensure financial advisors adhere to an impartial conduct code was to take effect on June 2017. It has been delayed until 2019;

- The Trump Administration also canceled the Fair Pay and Safe Workplace rules. This rule barred companies with a history of wage, labor and workplace safety violations from obtaining federal contracts valued at $500,000 or more;

- The White House and the U.S. Department of Labor proposed a rule allowing workplaces to share tips among more classes of employees. Tips can be dispersed each day among workers regardless of job title. Currently, a 2011 rule restricts that option;

- The Administration is trying to kill the Clean Power Plan, an Obama policy. It was to limit power plant emissions by switching to natural gas, wind and solar energy. It made it harder to build new coal plants.

Reports have shown that when in office Scott Pruitt sought far fewer financial penalties for violating environmental rules that his predecessors; The Interior Secretary has ordered faster permits for oil and gas production and for drilling; Rules have been lessened, requiring employers to maintain accurate records of workplace injuries and illnesses; several regulations have been rolled back protecting workers from harmful chemicals in the workplace such as beryllium and silica dust.

Expect this to continue and perhaps accelerate. The President has sought to have all regulations ranked on two scales, from one to five. The first scale was ranking regulations from effective in contributing to health and environmental safety to ineffective. The most effective would rate a five and the least effective would rate a one.

Similarly, every regulation would be rated according to its relative cost, with the least expensive rating a five and the most expensive rating a one.

IMPLICATIONS FOR BUSINESS: There is a rational and realistic effort to address regulation according to a plan for what would be best for the Country. Expect more of this in the months to come.

DID YOU KNOW?

There are 293 ways to make change for a U.S. dollar.

THE GIG ECONOMY

The Gig Economy represents a rapidly changing new form of employment where temporary positions are common and organizations contract with professional independent workers for short-term projects and engagements.

A study produced by Intuit, the financial accounting and tax preparation firm, predicted that by 2020, as much as 40 percent of American workers would be independent contractors.

Key forces driving the gig economy:

- A digital age, where people are increasingly mobile and work can be done from almost anywhere.
- Freelancers are able to choose temporary jobs and projects, employers select the individuals for specific projects.
- Software replaces some types of work and means so that others take much less time.
- Financial pressures on businesses leading to staff reductions.
- The entrance of the millennial generation into the workforce.

In a gig economy, businesses save money on salaries, benefits, office space and training.

The European Commission, recognizing the impact of the new form of employment, has adopted labor reforms that will set minimum standards that will apply to all workers. The Commission believes that recent changes in the labor market require balancing the flexibility of new work opportunities with the need for the economic security offered by traditional forms of employment.

The gig economy is part of a shifting cultural and business environment which demands very careful attention.

IMPLICATIONS FOR BUSINESS: The gig economy represents a radical change in the way companies engage and contract with professionals to perform work. Some believe it is a troubling trend with highly disruptive qualities that will have far reaching impact.

While companies may gain financial benefits by hiring expert freelance professionals, the new gig economy may have a wide and negative impact on the overall economy.

Workers may suffer from lower wages, limited benefits and employment insecurity. Overall income inequality may widen. Lower wages will negatively impact consumer spending and prove to be a drag on the entire economy. Government may be forced to fill the bill for services and benefits that companies are no longer offering.

THE U.S. IS IN DANGER OF LOSING ITS FINANCIAL SERVICES LEADERSHIP

The United States risks ceding its leading position in global financial services if it doesn't swiftly remove barriers to financial innovation, a new U.S. Treasury report says.

To maintain its leadership, according to the report authored by Treasury Secretary Steven T. Mnuchin and Treasury counselor Craig S. Phillips, the U.S. government should:

- Work with American financial regulators to coordinate trials and experiments with innovative financial services companies. This should help to ensure that U.S. ventures and the Country's banking and financial services industries stay on the leading edge of innovation.
- Reform procurement rules to allow regulators to use their authority to develop research and development and 'proof of concept' technology projects. This would help to spur innovative ventures, creating new companies, opportunities and jobs.
- Strengthen current efforts within the American banking and financial industry to work with the financial industry's customers.
- Promote an approach to international organizations that ensures that they align their actions with U.S. national interests and the domestic priorities of American regulators.

Administration and congressional actions would be needed to implement these initiatives.

IMPLICATIONS FOR BUSINESS: Following the recommendations would be like establishing a DARPA (Defense Advanced Research Projects) for financial services, ensuring that American companies are leaders through the next century of financial innovation.

DID YOU KNOW?

It is expected that whites will drop below 50 percent of the U.S. population by 2045. Deaths now outnumber births among white people in 26 states in the country.

PROXY ADVISORS WIELD EXCESSIVE POWER, CRITICS SAY

Proxy advisory firms, little-understood players in today's financial world, are under scrutiny by Congress and the SEC for what critics say is unwarranted influence on public corporations and the securities markets.

The criticism is that the leading proxy advisors, Institutional Shareholder Services (ISS) and Glass Lewis & Co., which together control 97 percent of the proxy advisory industry, wield inappropriate power in situations such as the recent failed attempt to merge Rite Aid and the Albertsons grocery store chain.

The critics say that institutional investors scotched the deal by voting their shares against the merger on the recommendation of the proxy advisers, and that as a result Rite Aid may not be able to survive as a standalone company. Institutional investors are allowed to fulfill their fiduciary obligations by relying on the advice of proxy firms.

Congress is paying attention to the fact that concerned organizations like the Manhattan Institute and the American Council for Capital Formation—not to mention *The Wall Street Journal* editorial board—have sounded alarms about the power of the proxy advisors.

The House of Representatives has passed a bill that would require proxy advisors to register with the SEC and make public their methodology for advising on proxy votes. The bill is currently pending before the Senate Banking, Housing and Urban Affairs Committee.

And this Fall the SEC is planning a staff roundtable to hear from investors, security issuers and other market participants on whether its proxy rules should be altered.

IMPLICATIONS FOR BUSINESS: A major reason institutions follow what proxy advisers recommend is that defying their advice can invite lawsuits. That means there is little that corporate managers and boards of directors can do to oppose wrongheaded shareholder votes dictated by proxy advisers. A workable solution will likely have to come from the federal legislative or executive branches.

DID YOU KNOW?

40 percent of the world's ad spending is expected to take place online in 2018.

THE NEWS MEDIA ARE CHANGING DRAMATICALLY

There was a time when everyone got their news from the traditional media—newspapers, news magazines, radio and television. It was a time when CBS News anchor Walter Cronkite was considered the most trusted man in America. But Cronkite and the others like him are long gone. No one in the media today has that kind of standing—not even close.

There are more Americans (43 percent) with a negative view of the news media than there are with a positive view (33 percent); 23 percent are neutral. And 66 percent say most news media do a poor job of separating fact from opinion; in 1984, just 42 percent of Americans believed that to be the case. Forty-five percent of Americans say they have hardly any confidence in the press.

The impact of this falloff in trust is devastating. In the past year alone, daily newspapers lost 11 percent of their circulation; cable television news is down 12 percent; the network evening news broadcasts lost 7 percent of their audience and the morning news, 10 percent. Local morning television news is down 15 percent, and evening and late-night news is off 7 percent. Circulation for the leading Hispanic newspapers was off 18 percent—this from the fastest-growing demographic in the Country.

The social media are followed by millions, but confidence in the news side of their business has fallen to a disturbing low. Here's how bad it's gotten: According to the Poynter Institute, American think that 65 percent of the news on social media is made up or can't be verified. That is to say, people dismiss nearly *two-thirds* of what they see there.

A majority of Americans also believe the impact of social media is negative, and 73 percent say the spread of inaccurate information on the internet is a major problem with news coverage today.

What is the public looking for? Eighty-seven percent of Americans say they want the media to verify facts and get it right—in a word, accuracy. And 78 percent want journalists to be fair to all sides.

It is telling that the most trusted source of news in the United States is a British publication, *The Economist.* But then, in the U.K. less than 10 percent of the public trust the media. And things aren't any better elsewhere in Western Europe: In Italy and France the number is under 5 percent. The highest level of trust in Europe is in Germany, and it's only 20 percent there.

IMPLICATIONS FOR BUSINESS: The rapid loss of confidence in news sources is a serious problem for the U.S. in particular, and Western society in general. There must be agreement on basic facts as they are reported by news organizations before the compromises that are at the heart of a democratic system of government can be reached. Without that agreement, paralysis sets in and the social stability that businesses count on begins to waver.

There is no single solution to this problem, but one thing business leaders can do is push back against the politicians of both parties who go after the news media too hard. It's one thing for the politicians to complain about news organizations and criticize individual stories—we all do that. But it's unacceptable when they use language and deploy tactics that are designed to destroy one of the foundational institutions of our nation by killing its *sine qua non*—public trust.

DID YOU KNOW?

The median age of Americans is now 38—an all-time high.
86,248 Americans are 100 years old or older.

THE WORLD IS CHANGING FOR THE SOCIAL MEDIA GIANTS

Europeans have been aggressive in regulating the social media giants, in particular Google and Facebook. Since the first of the year, for example, Germany has required social platforms to take down criminal content within 24 hours or face multimillion-dollar fines. And since May, the European Union has enforced sweeping regulations designed to protect the privacy rights of all EU citizens.

The U.S. has been on the sidelines so far, but that may be changing. Pressure started building last year after it was disclosed that Russia had used Facebook and Twitter to interfere in the 2016 presidential election. The calls for reform grew louder in March when news broke that a British firm called Cambridge Analytica had also interfered in the election by obtaining the personal data of millions of Americans by duping Facebook.

The social media companies have suffered some serious reputational damage in the light of such revelations. Now the federal government may be stirring into action. According to Axios's David McCabe, "There have never been more proposals on regulating large web platforms circulating around Washington than there are right now—even if they are long shots." Among the possibilities:

- **Requiring more transparency around algorithms,** including government audits of the ones that determine what content is presented to users.

- **Making it easier to sue Big Tech,** which currently is protected from lawsuits over user-generated content.

- **Designating Google as a common carrier,** which could lead to more restrictions on how it moderates content.

The Justice Department, according to Axios, could also investigate "whether Google has violated antitrust regulations—something that could, in theory, lead to the company's breakup."

The rumblings in Washington over the social media turned into thunder when President Trump weighed in late last month. His concern, however, was not user privacy or monopolistic practices. It was the political content of news stories—his belief that there is an anti-conservative bias in the way Google's search engine selects news items.

The President, as he so often does, used Twitter to offer his perspective, saying in an early-morning tweet that Google search returns for "Trump News" were "RIGGED, for me & others, so that almost all stories & news is BAD." Later that same day, Larry Kudlow, director of the National Economic Council, told reporters the White House is "taking a look" at whether, and how, Google should be regulated by the government. Just how far such a regulatory initiative could go is a major question. Floyd Abrams, the respected constitutional attorney, warned that "any such government action would constitute a particularly egregious violation of the First Amendment." In explaining why, he cited a 1945 opinion by Supreme Court Justice Robert H. Jackson, who said the First Amendment is rooted in the view that "every person must be his own watchman for truth, because the forefathers did not trust any government to separate the true from the false for us."

The power to decide what, if any, action to take against Google, Facebook, Twitter, et al., rests with Congress. It is true that Republicans and Democrats both have concerns about the social media. But they are not the same concerns (for liberals it's primarily privacy violations, for conservatives, claims of political bias), so it seems unlikely that the two camps will agree on meaningful legislation anytime soon, especially if it runs afoul of the First Amendment issues Mr. Abrams raises.

IMPLICATIONS FOR BUSINESS: Social media have become essential tools for billions of people around the world. Companies that advertise on social media or use them as corporate communications channels will want to stay abreast of developments and factor them into their decisions.

MARKETING TO WOMEN: HOW TO GET IT RIGHT

Businesses are always searching for the most effective methods to reach key audiences. One of the largest demographic groups that marketers should tap into is women, who comprise over 50 percent of the adult population. They are 54 percent of consumers aged 50 and over, and they control about 60 percent of the nation's personal wealth. Women account for $7 trillion in spending, and they wield great influence in decisions affecting food purchases, vacations, education and vehicles.

Marketing to women need not be complicated, but you can't market to all women as a group. You have to do research and determine which segment of the female population is most likely to respond to your product or service. By finding out what interests that group, you can market to those specific interests.

Social media represents the most effective way to get a brand in front of female consumers. Over 70 percent of adult women use Facebook. Many also use Twitter, Instagram and Pinterest. It is wise, therefore, to incorporate social media into marketing campaigns.

Women tend to be loyal to certain brands, and many purchase goods from companies that contribute to causes they believe in. They like to feel that they are doing real good in their communities while purchasing things they need.

Not surprisingly, women like to be consulted in the development process for goods and services, so it makes sense to reach out through online surveys, focus groups and other means to ask them which features they believe are of interest and why. The best way to find out what intrigues women is to use plain language they will understand, not catch phrases or business jargon.

Women love quality and are willing to pay for it. They respond positively to unique brands that deliver on their promise of quality.

IMPLICATIONS FOR BUSINESS: The more effort businesses put into getting to know their female audience, the better the marketing strategies they can employ to reach that audience.

WE'RE IN A GOLDEN AGE OF TELEVISION: ENJOY IT WHILE IT LASTS

When was the Golden Age of television? Many fans will say it was the period from the late 1940s until the early '60s when original dramas and high-quality anthology programs were standard fare and when young stars like Grace Kelly, James Dean, Paul Newman and Sidney Poitier were emerging under the guidance of gifted directors like Arthur Penn and John Frankenheimer. Others argue the Golden Age was the decade of the '70s when TV was dominated by popular sitcoms like "The Mary Tyler Moore Show," "All in the Family," "M*A*S*H," "Happy Days," "Taxi" and many more.

But a very strong case can be made that the real Golden Age of television is right now, and that it's been going on since the year 2000, probably earlier.

After all, for most of its history American TV consisted of just three networks, ABC, CBS and NBC. The marketplace expanded in 1986 when Fox made it the Big Four. But even then, what we watched was limited to what a handful of network executives decided to put on the air. They usually had fixed ideas about how to attract the audiences that would attract big advertisers, and they expected scriptwriters to fall in line. Some writers and producers were able to get a bit more adventurous. But mostly they had to deliver what became known as "least objectionable programming." Small wonder that ambitious writers, producers and directors all wanted to graduate to the movies.

That world began to dissolve in the late '80s in the face of several rapid changes. VCR tapes and then DVDs gave viewers a taste of what it was like to control what they watched and when they watched it, commercial-free. Meanwhile, cable and satellite stations began to multiply, first just a few, then in the hundreds. Initially their programs were mostly reruns of old network shows. But then the revenues poured in (remember that cable stations have two revenue streams: advertising dollars and the fees that carriers like Time-Warner pay them), so many got into original programming. The result was a kind of feedback loop: To attract viewers away from the networks, cable shows had to be creative, daring, exciting. That forced the networks to up their game—the race for quality was on.

More changes were on the way. In 1999 the first TiVo boxes—digital video recorders—appeared on the market, giving viewers still more control over what they watched. Then streaming came along, providing audiences with even greater control, including the ability to binge-watch favorite shows. And in 2013, Netflix went from being a shipper of DVDs and an online streaming service to a creator of original programming. The model it used was the one HBO had employed so successfully with shows like "The Sopranos": Hire top-quality talent and give it free rein. Audiences loved the results (think "House of Cards), and soon Amazon Prime and the other streaming services were following suit.

All these developments had a major impact on the Hollywood studios. To lure audiences away from TV's quality programming, they focused on blockbuster movies, many of them sequels to previous blockbusters and many of them based on comic book figures, like Marvel superheroes. Big international audiences will pay to see the hits, so the payoff for the studios can be enormous. But when a movie's budget can easily top $200 million, no one wants to let directors and screenwriters get experimental. The effect of Hollywood's embrace of by-the-book blockbusters has been to drive creative people into the TV business. That's where established figures like Martin Scorsese and the Coen brothers are working now. And agents who once told actors to stay away from television now tell them it's the place to be, especially since fewer movies are being made and there's more work in TV.

The beneficiaries of these changes in technology and transfer of talent are, of course, the TV viewers who have an astonishing range of quality programs to choose from. Here's one measure: There were 182 original series on TV in 2002. In 2016 it was 455. And the number has gone up since then.

But nothing lasts forever, especially Golden Ages. The cable business that was the cutting-edge in transforming television is facing a transformation of its own. Growing numbers of households with broadband are cancelling their cable subscriptions—or not signing up at all. And at a certain point all those network, cable and streaming programs may begin to trip over one another. How many lonely, brooding detectives can audiences take? How many emergency room crises can they abide? When do they tire of watching yet another serial killer get caught?

So the Golden Age continues. But the winds of change are blowing, and only the nimblest talents will keep up.

IMPLICATIONS FOR BUSINESS: One effect of technologies like DVDs, DVRs and streaming services is that advertisers are cut out of the picture—literally. Network and cable programs are still available of course. But with audiences becoming more and more accustomed to talent-rich shows, the size of a program's audience may not be as important as its quality. *Class over mass* appears to be best rule for most national adverting.

BECOMING A MOTHER: EDUCATION AND GEOGRAPHY ARE THE MAIN FACTORS

Starting a family is a big step in anyone's life. After analyzing four decades of birth records, *The New York Times* has identified the key factors that determine how and when 21st century American women make the decision. Basically, it comes down to where they live and how much education they have. Those same factors frequently determine their children's lifestyles and economic futures.

The current national average for first-time mothers is 26, up from 21 in 1972. (In other developing countries—for example, Switzerland, Spain, Japan, South Korea and Italy—the average age of first-time mothers is 31.) For first-time American fathers, the average age is 31, up from 27 in 1972.

But what *The Times* found is that women living in rural areas like Todd County, S.D., and Zapata County, Tex., on average become mothers at 20 or 21. First-time mothers in the nation's big cities and on both coasts—think New York and San Francisco—are 31 or 32 on average.

And educational status is even more important in determining when women will begin families than geography. No matter where they live, women who possess a college degree have children an average of seven years later than those who don't.

Those seven years can be crucial, since they are usually when women finish their higher educations and begin careers, which means they have increased their socioeconomic status before they start families. This, in turn, can determine the life ahead for the child: The sons and daughters of well-off mothers tend to do better socially and financially, while the reverse is true for most children of low-income moms. That is not an iron rule, of course. But overall in today's society, a mother's ability to provide for her children is a reliable predictor of their futures.

All this has a significant impact on social values and political identifications. When researchers June Carbone and Naomi Cahn explored the intersection between mothers' ages and their religious beliefs, they found that younger moms tend to be more religious and more conservative in their political beliefs. They oppose abortion and value conventional gender roles. Women who become mothers later in life are more likely to be politically liberal and to share gender roles with men.

Younger mothers are also more likely to live near their families or in communities where family ties are significant. But their pregnancies are more likely to be sporadic: Single moms comprise three-quarters of the nation's population of young mothers.

IMPLICATIONS FOR BUSINESS: Most younger moms are unmarried and are close to their families, but lack financial assets. Women who become mothers at an older age tend to be financially better off, live farther from their parents and other family members and are positioned to spend more on ensuring their children's futures are successful.

APPENDIX:

CURRENT FORECASTS FOR KEY ECONOMIC AREAS AND THE EUROZONE

Methodology and sources

This document has been prepared by The European House - Ambrosetti for the Workshop **"Intelligence on the World, Europe and Italy"**, held at Villa d'Este – Cernobbio, **on September 7, 8 and 9, 2018**. The intention is to provide participants with a broad but concise overview of the global macroeconomic scenario.

The document collects the forecasts elaborated by leading banks, investment banks and international institutions on the macroeconomic prospects of the main developed and emerging economies (Argentina, Brazil, Chile, China, Eurozone, Finland, France, Germany, India, Indonesia, Iran, Italy, Japan, Malaysia, Nigeria, Norway, Portugal, Russia, Saudi Arabia, South Africa, South Korea, Spain, Sweden, Turkey, United Kingdom, USA). The charts present the average values for each indicator with the intention of offering a 'global forecast'.

The European House - Ambrosetti assumes no responsibility for the individual forecasts.

Special thanks to the organizations that shared their research with The European House - Ambrosetti, and to all those who contributed to the preparation of this document.

*The European House - Ambrosetti ha preparato questo documento espressamente per il Forum **"Lo Scenario di Oggi e di Domani per le Strategie Competitive"**, in programma a Villa d'Este – Cernobbio – il **7, 8 e 9 settembre 2018**. Il fine è quello di offrire ai partecipanti ai lavori una visione d'insieme sintetica sulla congiuntura macroeconomica mondiale.*

Il presente documento raccoglie le previsioni macroeconomiche dei principali Istituti di Credito, Banche d'Affari e Istituzioni Internazionali per le principali economie industrializzate ed emergenti (Argentina, Arabia Saudita, Brasile, Cile, Cina, Corea del Sud, Eurozona, Finlandia, Francia, Germania, Giappone, India, Indonesia, Iran, Italia, Malesia, Nigeria, Norvegia, Portogallo, Regno Unito, Russia, Spagna, Svezia, Sudafrica, Turchia, USA). Le tavole indicano la media delle stime per ciascun indicatore, con l'intenzione di offrire delle 'previsioni globali'.

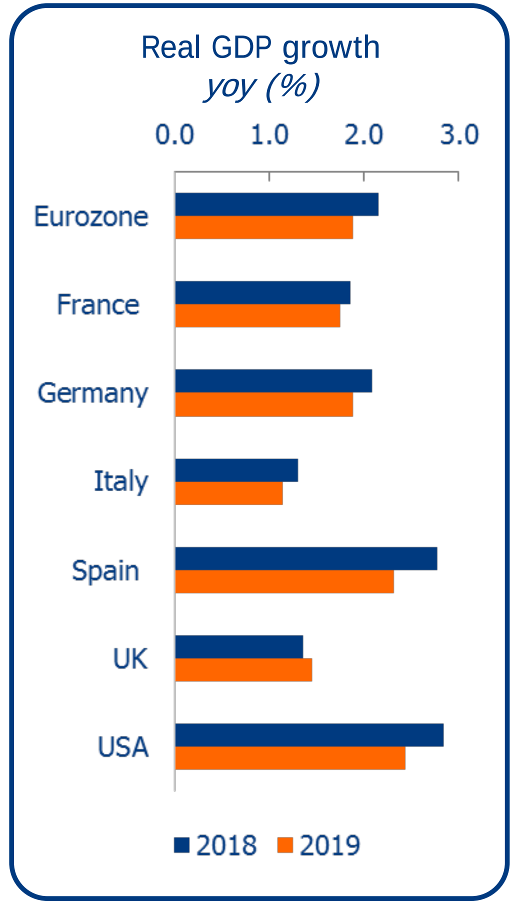
The European House - Ambrosetti declina ogni responsabilità per le previsioni fornite.

Si ringraziano le organizzazioni che hanno condiviso le proprie ricerche con The European House - Ambrosetti e tutti coloro che hanno contribuito alla realizzazione di questo documento.

Organization	Documents
African Development Bank	*African Economic Outlook, 2018*
Asian Development Bank	*Asian Development Outlook, 2018*
Bank of America - Merrill Lynch	*Global Economic Weekly, 10 Aug. 2018*
BBVA	*Economic and Financial Indicators, Jul. 2018*
BNP Paribas	*Economic and Financial Forecast Database, Jul. 2018*
Citibank	*2018 Market Outlook, 2 Jul. 2018*
Commerzbank	*Ahead of the Curve 16 Aug. 2018* *Week in focus, 17 Aug. 2018*
Credit Agricole	*Economic and financial forecasts, 10 Jul. 2018* *Emerging Countries – Monthly News Digest, 29 May 2018*
Deutsche Bank	*Macro Forecasts - Daily Update, 18 Jul. 2018*
European Central Bank	*ECB Staff Macroeconomic projections for the Euro Area, Jun. 2018*
European Commission	*European Economic Forecast, Spring 2018 + Summer 2018 (Interim)*
Generali	*Market Perspectives, Jun. 2018* *Investment View, 2018*
HSBC	*Global Economics Q3, Jul 2018*
IMF	*World Economic Outlook, Apr. 2018 + Jul. 2018 (Update)*
ING	*Economic Forecast, Jul. 2018*
Intesa Sanpaolo	*La bussola dell'economia italiana, Jul. 2018* *Scenario Macroeconomico, Jun. 2018* *Weekly Economic Monitor, 27 Jul. 2018*
JP Morgan Chase	*Global Fixed Income Markets Weekly, 17 Aug. 2018* *FX Markets Weekly, 24 Aug. 2018* *Global Data Watch, 24 Aug. 2018*
OECD	*Economic Outlook, May 2018*
UniCredit Group	*The UniCredit Macro & Markets Weekly, 27 Jul. 2018*
World Bank	*Global Economic Prospects, Jun. 2018*

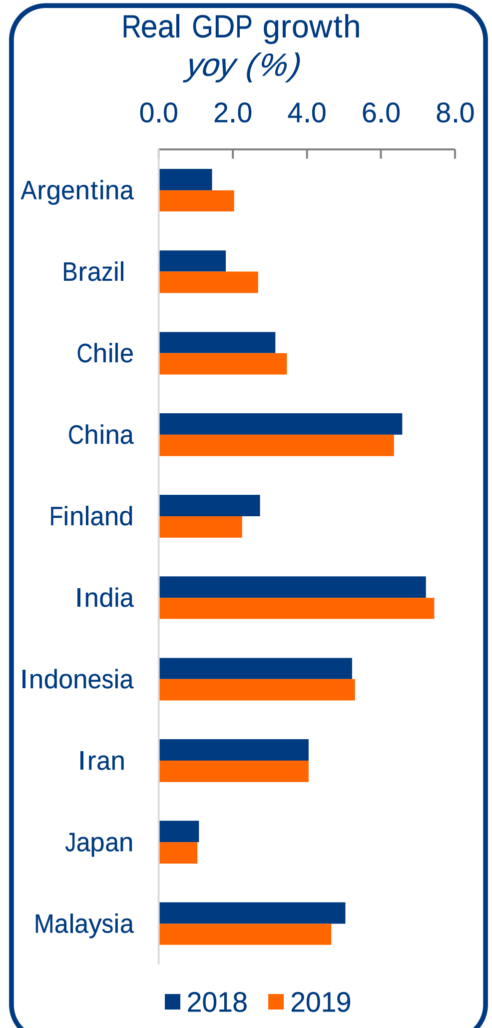
Forecast Table - Average (1/6)

EUROPE BIG-5 AND USA		GDP	Unemployment	Investments	Private consumption	Consumer Prices
EUROZONE	*2018*	2.2	8.3	3.2	1.6	1.6
	2019	1.9	7.9	3.3	1.7	1.6
France	*2018*	1.9	8.9	2.9	1.2	1.7
	2019	1.7	8.5	3.1	1.5	1.6
Germany	*2018*	2.1	4.2	3.9	1.6	1.8
	2019	1.9	4.0	2.4	1.7	1.8
Italy	*2018*	1.3	10.9	3.3	1.0	1.3
	2019	1.1	10.5	3.9	0.9	1.4
Spain	*2018*	2.8	15.4	3.9	2.5	1.7
	2019	2.3	14.0	4.2	2.0	1.6
United Kingdom	*2018*	1.4	4.4	1.8	1.1	2.5
	2019	1.5	4.5	1.5	1.1	2.2
USA	*2018*	2.8	3.9	5.2	2.7	2.5
	2019	2.4	3.5	4.2	2.5	2.2



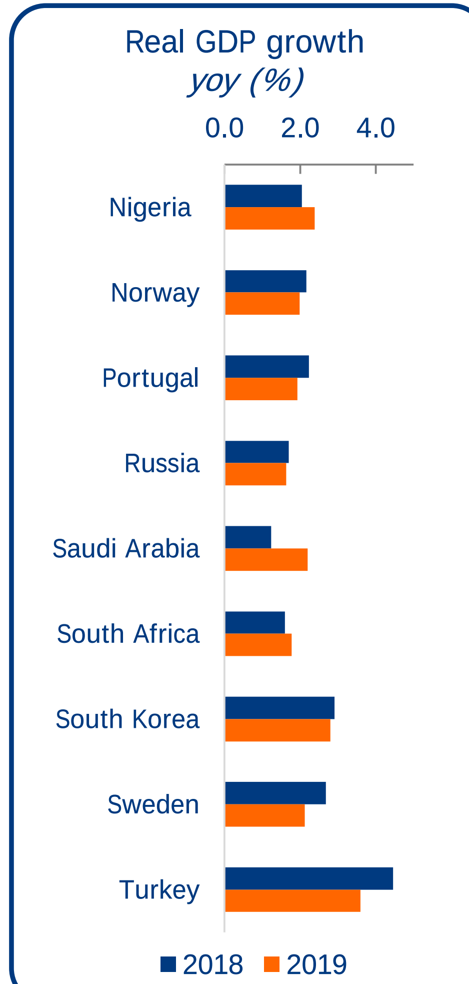
Forecast Table - Average (2/6)

OTHER COUNTRIES		GDP	Unemployment	Investments	Private consumption	Consumer Prices
Argentina	*2018*	1.4	7.8	9.2	2.0	26.1
	2019	2.0	7.7	6.1	2.0	21.8
Brazil	*2018*	1.8	11.8	2.8	2.5	3.5
	2019	2.7	10.7	5.3	2.9	4.0
Chile	*2018*	3.2	6.6	4.0	3.6	2.3
	2019	3.5	6.4	4.9	3.8	2.8
China	*2018*	6.6	4.0	5.6	8.2	2.1
	2019	6.3	4.0	5.4	7.2	2.3
Finland	*2018*	2.7	8.2	3.5	1.9	1.2
	2019	2.3	8.0	3.4	1.8	1.6
India	*2018*	7.2	3.5	8.9	7.2	4.6
	2019	7.4	3.5	6.4	7.5	4.7
Indonesia	*2018*	5.2	5.5	6.7	5.1	3.6
	2019	5.3	5.3	7.1	5.5	3.7
Iran	*2018*	4.1	11.7	-	-	12.1
	2019	4.1	11.6	-	-	11.5
Japan	*2018*	1.1	2.6	1.1	0.7	0.8
	2019	1.0	2.6	1.0	1.0	1.0
Malaysia	*2018*	5.0	3.2	1.6	7.9	2.4
	2019	4.7	3.2	2.3	6.7	2.4



Forecast Table - Average (3/6)

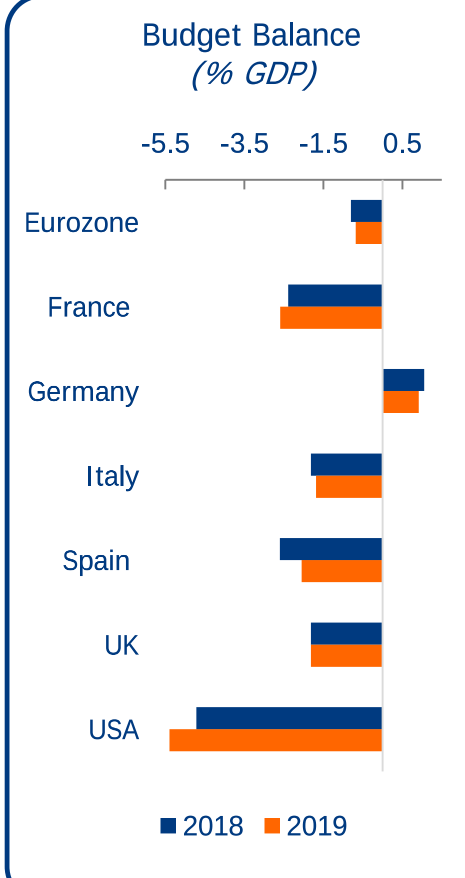
OTHER COUNTRIES		GDP	Unemployment	Investments	Private consumption	Consumer Prices
Nigeria	2018	2.0	19.4	5.2	1.5	13.5
	2019	2.4	19.8	4.6	2.0	12.4
Norway	2018	2.2	3,7	0.3	2,1	2.0
	2019	2.0	3.5	1.9	1.8	1.9
Portugal	2018	2.2	6.8	4.9	2.2	1.4
	2019	1.9	6.7	4.9	2.1	1.5
Russia	2018	1.7	5.2	3.6	3.4	3.0
	2019	1.6	5.1	2.6	2.5	4.0
Saudi Arabia	2018	1.2	7.0	0.9	1.3	3.0
	2019	2.2	7.5	6.0	1.9	2.5
South Africa	2018	1.6	28.0	1.2	2.2	5.0
	2019	1,8	28.3	3.7	1.9	5.2
South Korea	2018	2.9	3.8	2.3	2.9	1.7
	2019	2.8	3.5	2.3	2.4	1.9
Sweden	2018	2.7	6.2	4.2	2.2	1.8
	2019	2.1	6.1	2.5	2.2	1.9
Turkey	2018	4.5	10.6	6.0	5.2	12.0
	2019	3.6	10.7	4.7	4.1	11.6



The European House Ambrosetti

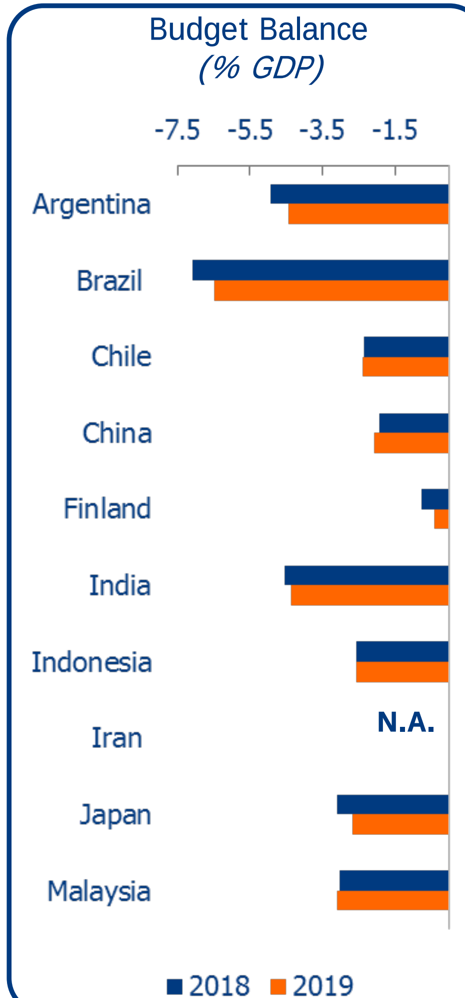
Forecast Table - Average (4/6)

EUROPE BIG-5 AND USA		Exports	Imports	**Budget Balance (% of GDP)**	Current Account Balance (% of GDP)	Government Gross Debt (% of GDP)
EUROZONE	*2018*	4.2	3.8	-0.8	3.4	86.2
	2019	4.1	4.2	-0.7	3.3	84.0
France	*2018*	4.1	3.1	-2.4	-1.4	96.5
	2019	3.7	3.8	-2.6	-1.3	96.3
Germany	*2018*	4.5	4.4	1.1	8.0	60.6
	2019	3.8	4.4	0.9	7.6	57.6
Italy	*2018*	3.6	3.9	-1.8	2.6	130.7
	2019	3.9	4.0	-1.7	2.4	129.3
Spain	*2018*	4.1	3.9	-2.6	1.6	97.0
	2019	4.6	4.8	-2.1	1.6	95.3
United Kingdom	*2018*	2.5	1.8	-1.8	-3.7	86.7
	2019	3.0	2.1	-1.8	-3.4	85.9
USA	*2018*	4.6	5.3	-4.7	-2.7	104.7
	2019	4.2	5.2	-5.4	-2.9	105.9



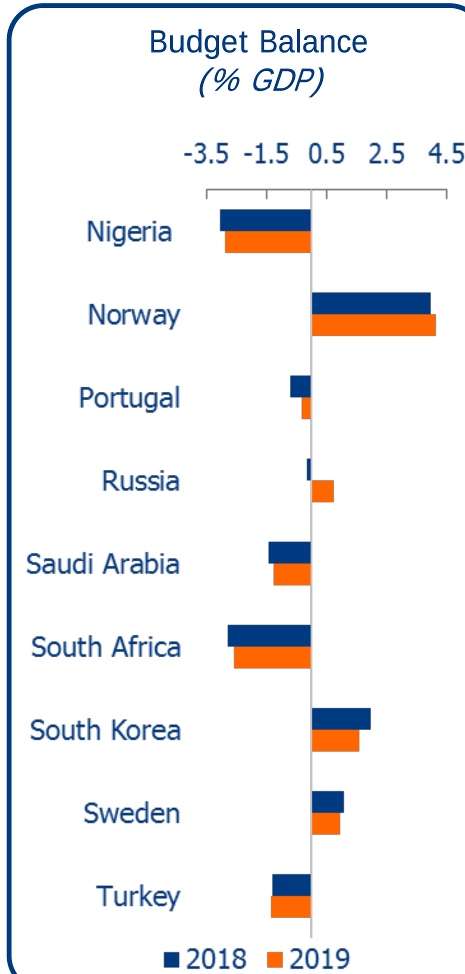
Forecast Table - Average (5/6)

OTHER COUNTRIES		Exports	Imports	Budget Balance (% of GDP)	Current Account Balance (% of GDP)	Government Gross Debt (% of GDP)
Argentina	*2018*	4.5	9.2	-4.9	-4.4	58.8
	2019	4.2	4.3	-4.4	-4.4	62.5
Brazil	*2018*	5.6	5.7	-7.1	-1.3	79.5
	2019	6.0	5.7	-6.5	-1.5	82.6
Chile	*2018*	5.1	7.8	-2.4	-1.9	26.3
	2019	4.6	5.1	-2.4	-1.7	23.1
China	*2018*	5.9	6.9	-1.9	1.0	56.4
	2019	4.5	5.2	-2.1	0.8	57.7
Finland	*2018*	5.4	4.0	-0.8	1.2	60.5
	2019	4.9	4.0	-0.4	1.4	59.6
India	*2018*	5.8	8.6	-4.5	-2.1	60.8
	2019	7.0	9.7	-4.4	-2.2	59.5
Indonesia	*2018*	7.3	8.4	-2.6	-2.0	32.7
	2019	5.8	6.0	-2.6	-2.1	32.0
Iran	*2018*	-	-	-	7.0	53.9
	2019	-	-	-	6.3	49.2
Japan	*2018*	4.7	3.4	-3.1	3.8	233.4
	2019	3.0	3.0	-2.7	3.8	231.7
Malaysia	*2018*	6.3	6.7	-3.0	2.8	52.6
	2019	6.0	7.8	-3.1	2.8	52.1



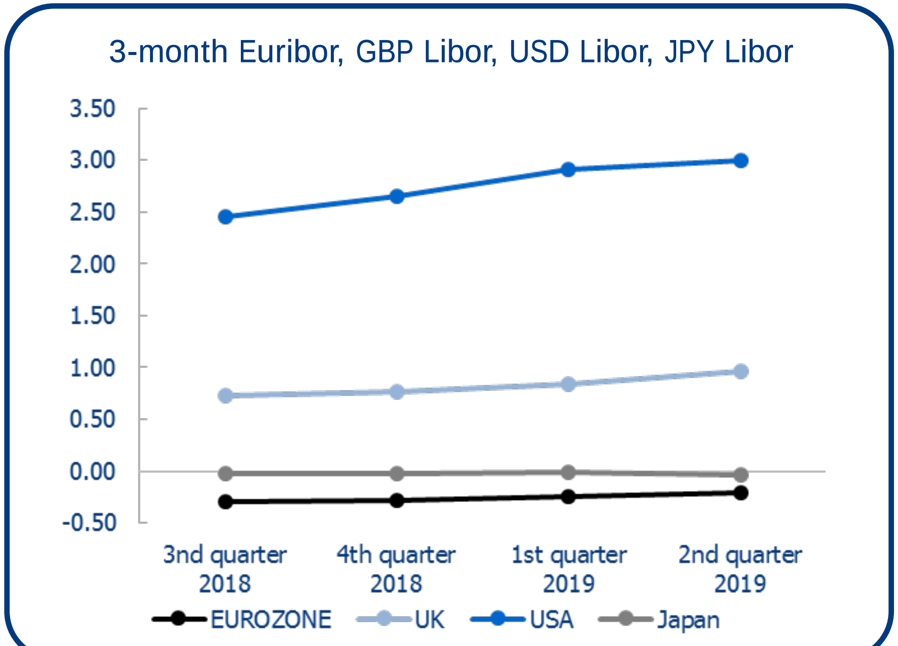
Forecast Table - Average (6/6)

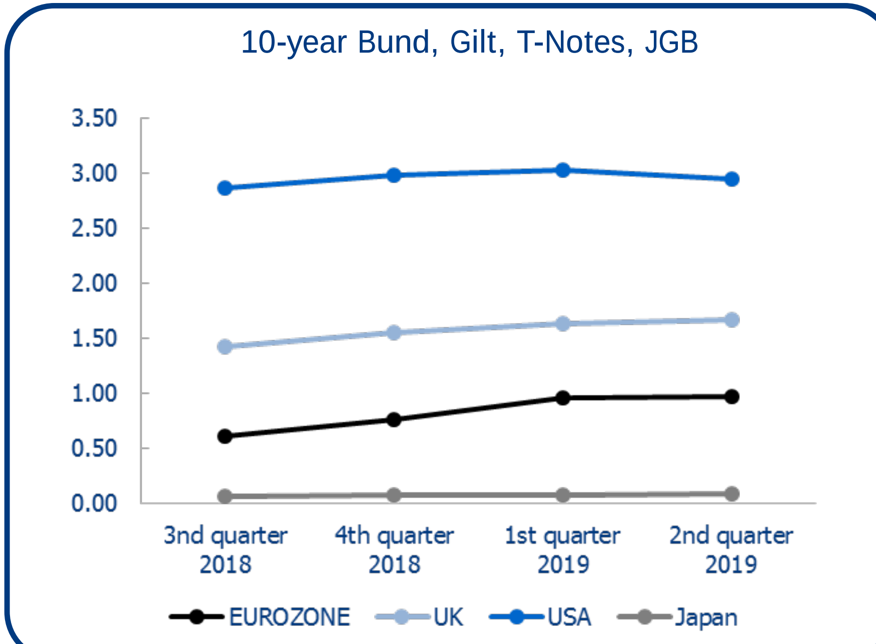
OTHER COUNTRIES		Exports	Imports	Budget Balance (% of GDP)	Current Account Balance (% of GDP)	Government Gross Debt (% of GDP)
Nigeria	2018	1.5	3.5	-3.1	2.1	23.8
	2019	3.0	3.6	-2.9	1.4	25.9
Norway	2018	1.4	1.9	4.0	5.8	37.2
	2019	2.1	2.5	4.1	6.0	37.9
Portugal	2018	5.8	5.9	-0.7	-0.3	120.6
	2019	5.0	5.1	-0.3	-0.4	119.3
Russia	2018	3.7	8.2	-0.2	4.5	14.8
	2019	3.1	5.1	0.7	3.4	14.7
Saudi Arabia	2018	0.3	1.1	-1.5	5.2	19.1
	2019	1.6	4.0	-1.3	3.9	22.5
South Africa	2018	2.5	4.8	-2.8	-2.9	54.6
	2019	3.2	4.5	-2.6	-3.0	55.5
South Korea	2018	3.7	4.2	2.0	4.5	40.0
	2019	3.8	3.4	1.6	4.3	39.8
Sweden	2018	4.7	4.4	1.1	3.3	38.8
	2019	4.1	4.1	1.0	3.3	36.7
Turkey	2018	6.6	9.0	-1.3	-6.2	27.7
	2019	5.4	5.5	-1.4	-5.6	27.5



Interest Rates Forecasts - Average

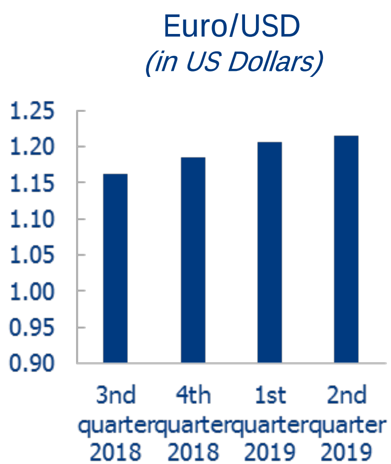
		3rd quarter 2018	4th quarter 2018	1st quarter 2019	2nd quarter 2019
EUROZONE	*3 months*	**-0.30**	**-0.30**	**-0.26**	**-0.22**
	10 years	**0.60**	**0.76**	**0.95**	**0.98**
UK	*3 months*	**0.73**	**0.76**	**0.86**	**0.96**
	10 years	**1.42**	**1.56**	**1.64**	**1.69**
USA	*3 months*	**2.46**	**2.67**	**2.93**	**3.03**
	10 years	**2.89**	**3.01**	**3.06**	**3.00**
Japan	*3 months*	**-0.03**	**-0.03**	**-0.03**	**-0.05**
	10 years	**0.08**	**0.09**	**0.09**	**0.11**

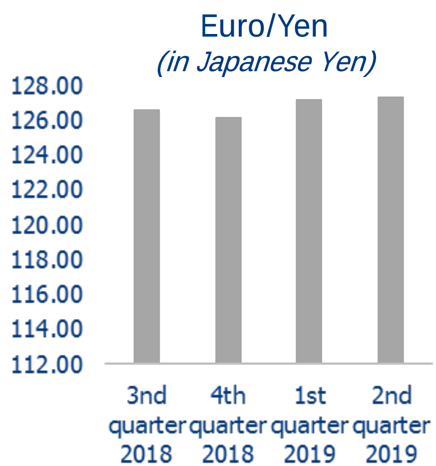


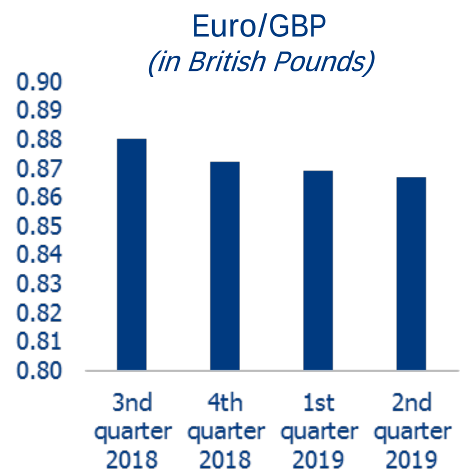


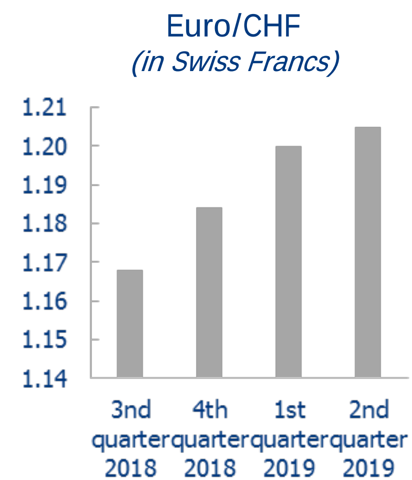
Spot Exchange Rates Forecasts - Average

	3rd quarter 2018	4th quarter 2018	1st quarter 2019	2nd quarter 2019
Euro/USD *(in US Dollars)*	**1.16**	**1.19**	**1.21**	**1.22**
Euro/Yen *(in Japanese Yen)*	**126.57**	**126.13**	**127.20**	**127.31**
Euro/GBP *(in British Pounds)*	**0.88**	**0.87**	**0.87**	**0.87**
Euro/CHF *(in Swiss Francs)*	**1.17**	**1.18**	**1.20**	**1.21**
USD/Yen *(in Japanese Yen)*	**108.75**	**108.00**	**106.75**	**105.50**
GBP/USD *(in US Dollars)*	**1.26**	**1.28**	**1.31**	**1.41**









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- *The late Washington Post Columnist Charles Krauthammer (1950-2018)*

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