ONLY FIFTEEN PERCENT OF AMERICANS BELIEVE THE COUNTRY IS HEADING IN THE RIGHT DIRECTION*

Everyone Is Anxious

Everyone Is Looking For Leadership

THE DILENSCHNEIDER GROUP
43rd TREND/FORECASTING REPORT

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Please receive this Trend/Forecasting Report—our 43rd—and recognize, as we do, that our nation and the world are in one of the most precarious states in recent times. How policymakers in business, politics and the social sector assess and respond to the daunting leadership challenges that lie ahead will be crucial. Many are simply on hold while the rest bristle with anxiety and uncertainty.

The next 12 months will produce surprise after surprise, most of them unpleasant. So, be alert and prepared. Life may never be the same. Momentum is building around the world that will change how we live for at least the next generation. This Report is like no other we have prepared since we started in business 20 years ago because what lies ahead may be like no other time that we, or any others, have experienced.

Today, we face a singularly perilous world defined by sweeping economic crises, seemingly permanent wars, widespread terrorism, mounting natural and man-made disasters, a degrading environment, epidemic drug use, new climate issues and much more.

The struggle for food and water may be the ultimate battle. Energy is another essential. Without it, we cannot cook, drive, fly, travel, heat or cool our homes. Nor can we protect our families and defend our country.

Meanwhile, the U.S. government remains a roadblock to developing this nation's vast natural resources. Almost every country in the world hails the discovery of natural resources on its territory. The U.S. now seems to work to disrupt development, placing its treasure and bets on green energy. Green energy will have its day, but, as a prime energy source, it is still a very long way off.

Also, the outlook for nuclear power is again challenged in the wake of the Japanese nuclear power plant disaster and the apparent close-out of Yucca Mountain (Nevada) as a potential depository for spent waste.

Many scientists are betting that nuclear power becomes a serious alternative to fossil fuels worldwide. Dr. Steven Chu, Secretary of the Department of Energy, is committed to nuclear power technology. The Obama Administration argues that nuclear energy has an important role to play as America moves to a clean energy future with a priority to find a sustainable approach to a safe, secure, long-term disposal of nuclear waste. It is going to be an uphill battle.

Expect sovereign nations to increasingly focus on their own success, while paying lip service to globalization. Count on rogue states to stir discord because they know their only route to success will be the destabilization of others. Be certain that terrorism will be with us for decades. Look for continuing advances in China, methodically proceeding with its plan for growth as detailed in this Report.

One of the chief goals of these Reports is to give our friends and clients a heads-up about the trends and developments that are just over the horizon. We can't see everything that's coming—nobody can—but we are proud of our batting average in getting it right over the years.

There is considerable fear and uncertainty out there. Many have lost large amounts of their net worth; millions are without jobs; and the immediate prospects for returning to full employment are not good. There is a deep concern about leadership around the world.

Despite the pervasive gloom, there are positive developments to be noted. On the medical and health front, even as the pharmaceutical industry suffers from the expiration of patents on best-selling drugs that financed new research, many expect a multi-billion industry in genetic therapies and biomedical enhancements to radically extend and improve human life.

The rate of change is accelerating far faster than most of us can imagine. Research in all sectors is growing exponentially. There is, to illustrate, almost no reason to doubt that artificial intelligence will be commonplace as man and machine merge. Learning to understand, accept and forecast the developments of the future will mark the next generation of corporate leaders.

While the reality of climate change is no longer seriously debated by scientists, the technological advances that will be devised to combat it are yet to be determined. It is also widely anticipated that, in less than 30 years, 3.5 billion people—nearly half the world's population—will be facing a serious water shortage. Scarce water could replace religion as the greatest source of tension in the Middle East.

With these broad concerns in mind, and based on continuing discussions with hundreds of experts in business, finance, journalism, the arts, academia and the non-profit sector, we have once again identified a set of noteworthy trends.

In addition, we recently had the privilege of again attending the prestigious Ambrosetti Conference in Italy, bringing together some of the world's leading political, social and economic thinkers.

In attendance were, among many others, Renato Brunetta, Minister for Public Administration and Innovation, Italy; Martin Feldstein, Member of the President Reagan's Economic Recovery Advisory Board, U.S.; Mario Monti, President, Bocconi University, Italy; Tom Ridge, former head of the U.S. Department of Homeland Security; Amr Moussa, outgoing head of the Arab League; Giulio Tremonti, Minister for Economy and Finance, Italy; and Zhu Min, Special Advisor to the Managing Director, IMF and former Deputy Governor of the People's Bank of China.

Coming from that meeting and appended to this document are forecasts that describe the macro-economic situation in many parts of the world.

This Report, then, as it has for 20 years, focuses on critical thinking and how you might apply it in your life, your business and whatever pursuits you follow. We would, of course, be pleased to hear any response you might have to this latest effort.

Best regards,

Robert L. Dilenschneider

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* **Rasmussen Reports (August 18, 2011)**

*"If Everyone is Thinking Alike,
Then Somebody Isn't Thinking"*

-General George S. Patton

LONG-RANGE THINKING: YOUR HELP NEEDED

Most of us are consumed by the moment—the instant news, weather and more that we are now fed 24/7.

But there are big questions/issues out there, if not addressed by some serious long-range thinking, that will cause the world and each of us formidable problems going forward.

Just a few:

- How do honest companies and individuals working to be competitive—and in the U.S. governed by the Foreign Corrupt Practices Act—deal with the rampant corruption and bribery that exists in so many other parts of the world?

- While we no longer talk about the "Third World"—it is the emerging market now—how do we help the uncounted millions there, who still daily suffer in distress and poverty?

- How do we reconcile working with more and more Muslims embracing Sharia law—a legal system that subverts most of the laws of the West?

- How do we deal with cyber terrorism, identity theft, computer security, hacking and, frankly, the Internet generally? And how do we protect our privacy?

- With dwindling birth rates in most of the developed world, how do we care for older people? In China, for example, there are currently nine people taking care of each older person—a rate due to dramatically fall to two-to-one because of the country's one-child policy.

- How do we get unbiased news with which to make reasoned judgments when editorial opinion seeps into the coverage and news judgments of virtually every media we encounter today?

- How does the individual investor compete against high-frequency, computer-generated trading?

- How do we promote civility and dialogue and get away from insults and rudeness?

There are dozens more geopolitical and economic questions that could be added to the list. We offer these few to stimulate long-range thinking and solutions. If you have one or two other critical issues you want to bring up, send them along for inclusion in our next Trend Report.

Now, let us start the Report with comments on the economy.

ECONOMIC OUTLOOK: BACK IN THE SOUP?

"We would be wise not to push too far on the conceit that we are smarter than our predecessors."

- Reinhart & Rogoff, *This Time Is Different*

In the course of human events, eight months is not a long span. But since January, when our last Trend Report was published, the prospects for the U.S. and global economy have deteriorated markedly. As we move into Autumn, it is apparent that the outlook for 2012 and beyond rests primarily in the hands of politicians and policymakers in a relatively small number of the world's most important countries.

This is not normally the case. Usually, the tide of commerce ebbs and flows at a pace that is largely—though not entirely—immune to fine-tuning by elected and (unelected) officials.

Recession Technically Over

But these are not ordinary times. Statistically, the Great Recession, the result of the 2007-2008 financial crisis, is over. But the weaknesses that lay at its core have been subjected to a series of political quick fixes and not been permitted to heal naturally. Consequently, as of September, chances that the Great Recession will resume appear much greater than even three months ago. Many economists suggest there is a significant probability of a double-dip recession.

In recent weeks, a series of events have unfolded that, at the least, have heightened uncertainty about the economic outlook. These include—but are not limited to—the following:

- Revised economic data from the U.S. Commerce Department show the Great Recession to have been much deeper than previously thought. The growth thus far in 2011 has been anemic at best, raising fears the economy may be on the cusp of losing any hoped-for forward momentum. August saw zero growth in jobs.

- An unprecedented announcement from the Federal Reserve that it intends to keep the federal funds rate, the short-term interest rate it most closely controls, at or near zero percent for the next two years.

- An ugly and ultimately dispiriting political struggle in Washington over raising the federal debt ceiling. This spectacle was closely followed by a ratings downgrade from Standard & Poor's of U.S. debt. The compromise failed to satisfy either side in the debate about on-going problems in the political process and figured prominently in S&P's stated reasons for the downgrade.

- A continuing spate of weak economic reports from major European countries, including Germany and the U.K., as well as continued tightening of monetary conditions in China and India, suggesting slowing growth in those countries.

- Continued thrashing at the problem of how to deal with serious sovereign debt problems in a number of peripheral members of the European Union, along with worries those problems could spread to larger countries such as Italy.

Counting on Private Sector

The possibility of a new downturn was raised in our last Report. In it, we noted that "a number of Western European countries have chosen to reverse the measures taken in 2009/2010 to stimulate their economies in favor of fiscal restraint or austerity. As in the U.S., there is confidence among important political constituencies such as Great Britain and Germany, that the private sector will be able to more than compensate for the slack created by a big drop in government spending and employment. It will take time to see if this confidence is justified, or was badly misplaced." A second stage of contraction would not be that unusual.

Research shows that so-called "double-dips" are, historically, more common after recessions caused by financial crises. Indeed, out of 15 countries that experienced recessions caused by financial crises since the end of World War II, six fell back into recession within four years of the crisis. Two factors are likely to be critical in determining when—or if—the Great Recession resumes: Debt and Jobs.

To many observers, the seeds of the financial crisis and the Great Recession are rooted in the American housing market. To a certain extent, that view is valid. But in many cases, homeowners who took on vast amounts of mortgage and home equity debt did so to pay their daily bills.

Unwinding the mountain of U.S. household debt is a much more pervasive and serious (for the economy) problem than the threats posed by the huge—and growing—obligations of the federal government. In recent years, consumer spending has come to constitute more than 70% of the country's gross domestic product. Until outstanding household debt is reduced to much more manageable levels and/or the nation's unemployment rate drops sharply, most consumers are likely to remain quite cautious in how they spend their money, thereby crimping economic growth.

Households are reducing debt levels relative to their annual after-tax income. From its peak of 135% in the third quarter of 2007, household debt is now at 119% of annual after-tax income. Sadly, much of that reduction is due to defaults on a wide array of obligations, including home mortgage loans. During the 1990s, the debt-to-income ratio averaged 89%, so there is still a distance to go.

From May, 2009, to May, 2011 daily consumer spending rose by 16% among Americans earning more than $90,000 a year. Among other Americans, spending was completely flat. Point: The consumer recovery, such as it is, appears to be driven by the affluent. Even with the recent paydown, outstanding household debt is now roughly $120 trillion.

Vigorous Growth Doubtful

Clearly, a return to vigorous growth, accompanied by a rise in hiring and an increase in after-tax income, would help many households. At the moment, however, the odds seem stacked against these outcomes. And concerns are mounting about what might happen should the economy go sour again. Economists worry that it will take years for debts to return to manageable levels, and some individuals may never be successful.

The debt problems confronting the European Union, detailed later in this Report, are even more daunting. To be sure, a break-up of the euro, being widely discussed, will certainly be damaging, painful and very expensive. Debtor countries will suffer most. But Germany and other creditors would also pay an extremely high price. And the consequences, unpredictable, should be of real concern. Even the European Union itself, might be at risk.

Anxiety and finger-pointing about America's unemployment problem and what caused it have intensified over the last three years. But the fact is the country's current jobless problem—and the difficulty it faces in solving it—didn't suddenly materialize during the Great Recession. Rather, the structural issues at its base have been in the making for more than 30 years.

During that period, the U.S. economy has been evolving, shifting from manufacturing to services and information and integrating itself far more tightly into a single, global market for goods, labor and capital. The pace of that change has increased since the turn of the Millennium. The Great Recession has done nothing to slow that down.

Employment opportunities are there for highly educated people at the upper end of the sectors that produce goods and services. But they are diminishing at the lower end and there is every reason to believe these trends will continue. In 1967, 97% of 30-to-50-year-old American men with only a high school diploma had a job; in 2010, just 76% were working.

The International Monetary Fund says one of every four jobs lost worldwide was lost in the United States. Barring major—and seriously damaging—changes in government policy (capital controls and trade wars, for example), it is hard to see how these trends will be slowed, let alone reversed.

Employment Levels Static

President Obama's new Chair of the Council of Economic Advisors, Alan Krueger, found that between 2002 and 2007, a period when the economy was expanding, the percentage of working age people then employed never returned to where it had been before the previous recession in 2001, at a peak of 64.7%. All this points to a much deeper and disturbing problem for the U.S. economy that goes far beyond creating "shovel-ready" jobs and all the new job-creation proposals from President Obama.

As long as the economy remains weak and consumer balance sheets stay seriously out of balance, it is difficult to predict when the U.S. labor market will experience tangible, cyclical improvement. What confronts Americans is our own version of the so-called Liquidity Trap: Absent evidence of rising demand, businesses will be reluctant—or slow—to hire. And unless or until there is employment growth, consumers will not be in a terribly advantageous position to go out and spend.

It bears remembering that in the 1930s the unemployment rate rose from 3.2 percent to just under 25%. Worse, experts say between 22% and 29% of all jobs in the United States have the potential to be moved overseas within the next couple of decades—not to mention the toll taken by increased automation.

Nearly every economist suggests that our behavior over the unfolding several quarters will define the next several years. Both optimists and pessimists abound.

Five key topics demand attention:

1. The multitude of problems of the past 12-18 months should not be seen as temporary and going away. They need to be addressed and fixed.

2. The issue of confidence—which is collapsing—needs to be joined because unless we believe we can emerge into a positive future it will not happen.

3. Job creation in the U.S. and, indeed, in Mediterranean countries, the Middle East and around the world, is key because without jobs income cannot be generated.

4. Active and public effort needs to go into maintaining a middle class—a group in society that is quickly diminishing.

5. Fixing infrastructure and energy, is key.

Every possible effort—political, communications, functional and more—must go into addressing these points. A lack of success spells a very different period ahead.

IMPLICATIONS FOR BUSINESS: Perilous times loom, and the only way to address the future is with a concrete national policy, which, today, is lacking. Exercise caution in all business decisions.

DID YOU KNOW?

Only 17% of the members of the U.S. House of Representatives are women, compared with 25% in the Iraqi Parliament.

POLITICAL OUTLOOK:

MORE CONFLICT IN WASHINGTON AS BOTH PARTIES GIRD FOR 2012

Congress and the White House will face off in one of the most partisan sessions in recent history this Fall. Both Congress and President Obama have record low approval numbers and both will be battling over economic solutions with their respective campaign strategies.

As a result, the potential for the status quo to change is very real. A president failing to be re-elected, the Republicans not holding their House majority and Democrats losing the Senate are all possible outcomes in the 2012 race. No one, however, can accurately predict those outcomes at this juncture.

The Senate majority is the most vulnerable with 24 of the 33 seats up for re-election held by Democrats or Independents who caucus with the Democrats. The House is likely to stay in Republican control, but both sides are predicting big changes and arguing they will be in charge come January 2013.

The re-election of President Obama depends on a) his Republican opponent and b) Hillary Clinton. If Mrs. Clinton takes the No. 2 position on the ticket, it enhances Obama's chances. While re-elections are essentially about the incumbent, the Republicans, nevertheless, must select an acceptable alternative to defeat President Obama.

The top issues concerning Americans for the past three months are all economic: the economy in general, unemployment/jobs and the federal budget deficit/debt. The economy is followed by government ethics/corruption, healthcare and taxes.

Budget Issues

Debt Ceiling Deal. The bipartisan, bicameral Super Congressional Committee is due to report by Thanksgiving its recommendations for $1.2 to 1.5 trillion in additional 10-year "cuts" to correspond with President Obama's requested rise in the debt ceiling. Again, these are reductions in the deficit off the C.B.O. baseline for 2012-2021, not necessarily actual reductions in the deficit.

Tax reform is on the table, but it seems very unlikely that the Republicans on the Committee or the Republican House, itself, could approve any actual tax increases beyond reforms that lower rates while eliminating deductions and credits. If the Super Committee deadlocks, or if Congress fails to enact their recommendations by the end of December, an automatic $1.2 trillion, 10-year sequester kicks in, with half coming from the 2012-2021 C.B.O. baseline for security spending (including the Department of Defense, Department of Homeland Security, foreign aid, etc.) and half coming from domestic spending.

Of course, Congress could pass a new law superseding the Super Committee and overcoming the sequester. The consensus seems to be that President Obama and the Democrats blinked as the debt ceiling deadline approached earlier this month and a real tax increase, including those in his most recent jobs speech, will not make it through the House. By the end of the first quarter 2012, any new deal struck in December 2011 will be a distant memory.

2012 Appropriations. Of the 12 appropriations bills Congress needs to pass for 2012, the House has passed six (under the Ryan budget) and the Senate has passed just one. The bills ultimately will have to comply with statutory budget caps established by the debt ceiling deal (with spending levels higher than the Ryan budget). If the White House stance during the debt ceiling fight is any indication of what will occur, President Obama and the Democrats will push for either an omnibus bill combining whatever Congress cannot complete by the end of September, or for a continuing resolution that gets through 2012.

Conservatives in the House and the Republican leadership have not yet decided whether it is in their interest to generate more "bites at the apple" through shorter-term continuing resolutions, setting up more floor fights or to allow for a year-long omnibus or CR. It has been reported that House and Senate Republican leaders want to avoid a battle over the spending bills. This would suggest that by the end of the first quarter in 2012, the discretionary spending fight for the rest of 2012 will be over.

No Tax Increase

Taxes. The Republican House may consent to a simplification in taxes that broadens the base, lowers rates and eliminates some deductions and credits as part of the Super Committee deal, but they simply will not pass a tax increase. The most costly new taxes buried in Obamacare take effect in 2013 and after, but they certainly could start distorting economic behavior a year out as companies continue to hoard cash in anticipation of having to comply with the law. Regulators, assigned new duties under Dodd-Frank, may not be able to wrest additional resources from Congress, but are likely to charge new and increased "fees" on securities firms' transactions in order to finance new regulatory oversight.

The conservative leaders who pushed "Cut, Cap, and Balance" during the debt ceiling contest will likely pivot (along with most other Republican candidates and Congressional leaders) to a growth agenda that proposes cuts in tax rates, particularly the corporate tax rate. Most likely, there will be symbolic votes on such plans (both Chairman Ryan and the Republican Study Committee will undoubtedly have plans) at least leading into the 2013 House Budget Resolution in April 2012. All that said, taxes won't change much in the next six months, but the uncertainty and the threat of coming tax hikes will discourage investment by companies.

Partisan Landscape

Obama Poll Numbers President Obama's approval ratings are low and going lower. Some pollsters believe 40%, others are slightly higher. As the Republican field thins out and the presidential approval rating starts to track with President Obama's re-elect numbers, these numbers may get closer together. That said, it's very rare for any incumbent who cannot break 45% in approval to ultimately win re-election. Recent polls have shown President Obama in the 30s in Pennsylvania. No one seriously thinks he can win re-election without a state like Pennsylvania. By way of comparison, Jimmy Carter was at 39% at this point in his presidency (48% by April 1980), Ronald Reagan 43% (54 by April 1984), Bill Clinton 46% (53 by April 1996), George W. Bush 60% (51 by April 2004).

Republican Primary Season. The big difference this year on the Republican side is that the party no longer has winner-take-all contests in the early states. Iowa, New Hampshire, South Carolina, Nevada and any other states moving their contests prior to April 1, 2012, will award delegates proportionally. This pushes back the earliest that a nomination can be effectively settled to April, and it could easily drag into May. The added intensity of the debate on the Republican side and the extended primary schedule will surely rally President Obama's base.

Republican Establishment vs. The Base. The stage is set for the 2012 Republican primary to become a proxy for conservative, grassroots dissatisfaction with Republican leadership in Washington. No matter how bloodied President Obama was by the debt ceiling fight and the S&P downgrade, Tea Party activists see the debt ceiling deal (along with the April 2011 appropriations deal) as a capitulation to Speaker of the House John Boehner and President Obama by the new members they sent to Washington.

You won't see it in print anywhere, but even conservative staff members on the Hill have developed a great deal of antipathy for their new grassroots, particularly when Speaker Boehner had to pull his debt ceiling plan and add the Balanced Budget Amendment in order for his plan to pass the House.

Beltway observers made hay out of the lack of Tea Party activism in D.C. during the debt ceiling fight compared with the debate over Obamacare. However, they may be missing the fact that activists who were rallying in 2009 and 2010 are paying much more attention to the presidential nomination fight now.

The apparent lack of interest Republican primary voters have in nominating the next-in-line candidate (Mitt Romney) as conventional wisdom would have them do, demonstrates their yearning for change-agent alternatives. Tim Pawlenty's fizzling and the lack of excitement about Jon Huntsman outside of pundit circles also demonstrate this reality. The shiny-object boom Rick Perry has experienced among conservatives, unfamiliar with the details of his record in Texas, can also be attributed to a desire for a candidate who will bring a real change in direction for the federal government and not simply replace President Obama.

In addition, as members of Congress face possible primaries themselves, don't expect any more spending deals with the President in the Spring. Perry and Romney have to be viewed as the front-runners with Congresswoman Bachmann trailing behind. Another shoe to drop is the potential entrance in the race of Sarah Palin. No signs of a real campaign have surfaced anywhere, but she likes to play with the media and is very unpredictable. Finally, there may be other candidates not now apparent in the wings.

Democratic Establishment vs. The Base. As yet, there is no serious talk of a primary challenge to President Obama, and someone would have to make a decision by November at the very latest to have any kind of effect. Nevertheless, the President's grassroots following appears thoroughly disillusioned with him in the wake of what they consider to be capitulations to Republicans in the tax-cut extension fight last December, the 2011 fight of this past April and culminating in the recent debt ceiling fight.

The AFL-CIO recently announced plans to fund its own super-PAC efforts rather than give to President Obama directly, focusing instead on fighting Republicans for control of Congress. Its fire won't be aimed at the President or the Democratic leadership. However, look for independent expenditures to frame the Spring budget fights ahead of the Fall 2012 election.

IMPLICATIONS FOR BUSINESS: The nation is in for a prolonged period of uncertainty on both the economic and political fronts. It will probably be late in the Spring of 2012 before the presidential race is set, and what will follow will be one of the most riveting ideological battles in recent history. Caution will be well-advised in making any business decisions in which federal regulations and policies are a major factor. Expect a very tight race among the front-running Republican candidates and the possible emergence of a third party. Get ready for a tough election with millions spent—billions for business will be at risk.

THE TEA PARTY AS A THIRD PARTY

Few will dispute that the relatively young, but influential, right-wing, socially and fiscally-conservative Tea Party—however contradictory the views held by many of its adherents—is now a significant presence on the American political landscape and could play a critical role in the outcome of the 2012 presidential election.

That will be especially evident if the "take no prisoners" Tea Party breaks with traditional, more moderate Republicans and reconstitutes itself into an authentic third party—a development most Democrats might eagerly hope for. A great deal depends upon who finally emerges as the G.O.P.'s standard-bearer in the 2012 race for the White House.

If someone like Michele Bachmann or Rick Perry prevails, the Tea Partiers will stick to the G.O.P. However, if a Romney or some other more centrist Republican gets the nod, a third party challenge could become a reality and, in fact, make a decisive difference in the outcome. Whether or not that happens , there are certainly historical precedents.

Perot Helped Clinton

Running as an Independent in 1992, Ross Perot virtually assured Bill Clinton's election. Clinton received just 43% of the popular vote while Perot posted 18.9%. Most historians believe that, had Perot not run, the vast majority of the nearly 20 million votes he received would have gone to George H.W. Bush in a successful bid for a second term.

More recently, there is still a small army of Democrats who will never forgive Ralph Nader for running against George W. Bush and Al Gore in 2000. Had Nader not been on the ballot in Florida, Gore would most likely have won the state's large Electoral College vote and the presidency.

That certainly was the case in the hotly contested 1912 election when Teddy Roosevelt bolted the Republican Party after it rejected him and nominated the incumbent, more conservative President William Howard Taft. A determined Teddy Roosevelt quickly organized the new Bull Moose or Progressive Party.

Declaring that he was “as fit as a bull moose” to regain the White House, Roosevelt attracted 27% of the popular vote against only 23% for Taft, handing the election to Democrat Woodrow Wilson. That year, even the Socialist Party candidate, Eugene V. Debs, managed to garner 6 percent of the total national vote.

Most relevantly, it was a trio of opposition candidates that made possible the election of the Republican Party nominee, Abraham Lincoln, in the historic 1860 presidential battle. That year, the long-established Democratic Party broke into two factions over the slavery issue. The Southern Democrats—later, to reorganize as the secessionist Confederacy—named John Breckenridge as its candidate. The Northern Democrats, pro-union and more liberal, selected Stephen Douglas to run against Lincoln. A fourth entry, the so-called Constitutional Union Party, opted not to take any position on slavery, naming John Bell as its candidate. Against three opponents, Lincoln managed to eke out a slim victory and change the course of American history.

IMPLICATIONS FOR BUSINESS: Most observers agree that any candidate running under a separate Tea Party banner in 2012 would effectively split the anti-Obama vote and probably guarantee another Democratic victory in the race for the nation’s highest office, especially if Hillary Clinton replaces Vice President Biden, as some are now suggesting. On the other hand, a Tea Party candidate taking the No. 2 spot on the Republican ticket could create a force to be reckoned with at the polls.

THE MEGA-RICH MAY HAVE TO PAY MORE

Popular sentiment is mounting and public opinion rising to make the mega-rich pay a larger percentage of their annual incomes in personal taxes. Most polls show that big majorities of voters—left, right and center—now believe the nation's wealth gap has grown too extreme and favor higher taxes for the super-rich—especially in a time of intractable unemployment and a still-struggling economy heavily impacting the middle class and the poor.

Pressure is even coming from the rich—not only here, not only here but from the wealthy abroad in France, Germany and Italy, among other European nations. Witness Warren Buffett's recent, widely publicized Op-Ed piece arguing that he and other affluent Americans are "coddled by a billionaire-friendly Congress" and should be responsible for a much greater portion of the national tax burden—or shared sacrifice.

But defining the “mega-rich” has always been the bone of contention. While most Americans can agree that Warren Buffett and his fellow billionaires can afford to pay more in income taxes, that is a far cry from increasing taxes on everyone making more than $250,000, a figure that would include many small business owners. Even Obama supporters admit small businesses are the job-creation engine of the U.S. economy. Many on the right would further argue that the constant threat of higher taxes is enough to force many of these job creators to put the brakes on hiring. At the same time, President Obama, is fond of embracing “fairness” as a theme and a rationale for raising taxes on the so called “mega-rich.” But wealthy and middle class Americans do, in fact, pay the lion’s share of personal income taxes.

Fiscal conservatives have also begun to embrace “fairness” as a theme, citing what they see as the unfair nature of the tax burden on the most productive members of society. As we move into 2012, expect to hear more from the right about a fair tax being one that everyone has to pay. It is likely to form the basis for a long overdue overhaul of the tax code with a broader base, simpler rules and far fewer loopholes. President Obama has also made this demand a key part of his strategy to reduce the country's huge deficit and debt levels. Media reports indicate Congress members were getting an earful about tax benefits for the wealthy from constituents across the country in town hall meetings last month. Obama will undoubtedly make the issue a key element of his re-election bid. This suggests that prospects for renewing the massive Bush tax cuts of the previous decade, slated to expire at the end 2012, are growing dimmer.

In a counter-move, some of the mega-rich are taking steps to adapt to a looming, higher-tax environment—notably, embodying sections of the Dodd-Frank financial reform bill that targets tax-favored hedge fund managers. George Soros is a case in point. Although known for his philanthropy, he is also turning his $24-billion Quantum Fund into a family office, meaning all non-family, outside investors will be eliminated. As a family office, he and his family, will not have to register the fund with the S.E.C. and make the numerous operational disclosures now mandated by Dodd-Frank. It should, too, be noted here that many of the super-wealthy have committed to the Bill and Melinda Gates “Giving Pledge,” agreeing to contribute at least half of their riches to philanthropic causes.

IMPLICATIONS FOR BUSINESS: With general, cross-party agreement that the nation's annual deficits and astronomic debt have to somehow be reduced going forward, tough choices will have to be made on spending cuts, entitlement reform and revenue increases. Whether it's eliminating tax breaks, loopholes, subsidies and deductions or straightforward tax cut terminations and outright increases, the very rich will most probably be paying more. One thing is indisputable, the U.S.'s current, impossibly complex tax code is in for some major changes.

PIONEERS OF CONSUMERISM STOP SPENDING

The 78 million Baby Boomers, the "material" girls and boys of the recent past, are giving way to a new frugal mentality as this country confronts a dire economic outlook for their golden years.

Nest eggs have been devastated by the recession. In the past five years, people ages 46 to 54 have seen their average net worth drop 45%, from $172,400 to $94,200. Those 55 to 64 have seen their worth nearly halved, from $315,400 to $159,800.

For many members of the generation that invented consumerism, there simply isn't enough time to recoup the losses. 41% of the lowest income older Boomers are likely to run short of money after 10 years of retirement. Meanwhile, as noted elsewhere in this Report, consumer demand and spending still make up about 70% of G.D.P.

Ironically, even though longevity has increased, seniors will not have enough money to pay for elder care. Baby Boomers and their children—the 49 million members of Generation X—have been forced to dip into their pockets to fund care for their elderly relatives, decreasing their own savings in the process.

Boomers have no choice but to pull back on spending. Research finds that 76% of Baby Boomers say they are willing to spend less now to invest for a more comfortable lifestyle in the future.

Consumers who once gave no hesitation to plunking down a credit card for the latest technological toys or frivolities now think twice about purchases, asking the price, choosing mainstream brands over luxury options or doing without.

As of 2008—the most recent data available—people ages 64 to 75 were spending 12.3% less than they did a decade earlier. Spending on vehicles has decreased 46%; household furnishings, 35%; and dining out, 27%. Simultaneously, healthcare costs have risen 75% and health insurance premiums have spiked 131% for this same demographic.

This trend will continue for the foreseeable future. Between 2020 and 2050, household spending on 100 of the most common consumer goods—food, furniture, cleaning products and clothing—is expected to drop by half. And because consumer spending is the largest influencer of the nation's economic stability, reduced spending habits will significantly affect the country's fiscal health.

IMPLICATIONS FOR BUSINESS: Competition among manufacturers and retailers will deepen as companies look for innovative ways to boost sales. Luxury brands will have to develop less expensive versions of their products and service-based concerns will have to find distinctive ways to distinguish themselves for consumers. Corporate America will focus increasingly on marketing products to younger buyers as Baby Boomers no longer represent the major demographic in consumer spending. Luxury items and technological goods will overwhelmingly be marketed to younger consumers.

EUROPE NEARS AN INFLECTION POINT

"We must change – or everyone will go down together."

-Emma Marcegaglia
Head of Italian Industry Forum Cofindustria
July 26, 2011

The European Central Bank (E.C.B.) is playing a dangerous game. In order to prevent the debt crisis that brought the economic problems of Greece, Ireland and Portugal from spreading to Italy and Spain, the Bank this Summer started aggressively buying up the debt of these larger—and therefore more systemically dangerous—countries. The purchases worked in the short term: the flare-ups of Europe's sovereign debt crisis receded and the region's political leaders were given a new window in which to seek out a true resolution.

But the respite is a temporary one. Only last week, an influential member of E.C.B.'s executive board unexpectedly quit his post in protest. Given the euro zone's current trajectory, it was only a matter of time before some event panicked investors again. Sure enough, these countries saw their borrowing costs spike toward unsustainable levels in the first week of September, leading to another massive equity market sell-off. The E.C.B. will be forced to act again. The crisis may or may not be abated—until the next event and the next panic.

Goldman Sachs Memo

It is becoming apparent to many informed observers—including the author of a leaked Goldman Sachs memo predicting that the European banks that hold much of the region's sovereign debt will need to be recapitalized to the tune of $1 trillion—that the current situation of the E.C.B., and thereby the euro zone itself, is untenable. It is simply a matter of time before an event triggers a crisis of investor confidence that exceeds the capacity of the E.C.B. or member nations to counter. When that day arrives, there are only two likely outcomes:

1. A break-up of the euro in which either the "strong" members exit to form their own currency block or the "weak" members depart in order to revert to a weaker currency; or…

2. The true economic integration of Europe, which would give a united Europe control over the national budgets it is now funding through debt purchases and bailouts.

The latter scenario would be by far the best outcome. From the origins of the E.U., critics warned of the dangers of a half-hearted integration approach that imposed a monetary union without political and fiscal harmonization. The inherent instability of the E.U. can no longer be denied or debated. Although E.U. leadership continues to behave as if the existing model can be maintained, it is hard to find many who agree.

Indeed, the possibility of a break-up of the euro zone—an idea that would have been considered laughable just a few short years ago—is now regularly debated on the airwaves and in the pages of the world's leading newspapers. When viewed against the prospects of a potentially chaotic and catastrophic dissolution of the euro zone, political and fiscal integration seems like a highly attractive option.

But the clock is ticking: It's not clear if markets will give European leaders time to tackle the almost impossibly complex process of integration. And not everyone agrees that they should. Opposition to political union stretches from German workers, weary of paying the tab for weaker members, to citizens of Greece, Italy and other troubled nations for whom integration seems to promise a surrender of national sovereignty followed by years of harsh austerity.

The window to act proactively may be closing. The German economic engine that has powered the euro zone through both prosperity and crisis, appears to be sputtering. The slowing of the German economy could quickly bring Europe to its inflection point. If Europe's leaders do not rapidly choose between unity and dissolution, markets might just choose for them.

IMPLICATIONS FOR BUSINESS: If history is any guide, Europe's leaders will put off any final decision for as long as possible. Already, the European Commission is suggesting that the existing Lisbon Treaty allows for some measure of further economic integration. While that seems like a promising development, it is unlikely that member countries will accept radical change to their own notions of sovereignty without putting the issue before voters.

The unfortunate, most-likely result: more muddling along. While an orderly transition to a United States of Europe would appear to represent a best-case resolution to the current crisis, it seems increasingly possible that Europe will not be able to forge a comprehensive solution before hostile markets push the situation to a climax. Since it is impossible to predict how events will play out at that chaotic and volatile moment, companies and investors alike are best served by acting now to minimize their exposures and risk profiles in order to ride out what promises to be a fierce storm.

In this environment, watch the actions of Russia.

MORE GOVERNMENT SERVICES GOING PRIVATE

Look for accelerating privatization of government services at all levels—local, state and national. Expect it to be commonplace—not only in basic services like trash collection and incarceration, but for activities long regarded as unique government responsibilities On a national level, the wars in Iraq and Afghanistan have already witnessed a multi-billion-dollar spike in outsourcing of military support needs to private contractors.

On the state level, Ohio is proposing the sale of six prisons, thousands of parking meters, the Ohio Turnpike, its liquor sales business—which brings in $230 million a year in profits—plus public college dormitories and athletic facilities. In Wisconsin, Governor Scott Walker wants to sell a number of state-owned energy operations, including power plants. Typically, despite strong opposition from unions, companies such as the Corrections Corporation of America now operate scores of state prisons across the nation, including several in California.

At the same time, 46 states and the District of Columbia have made severe cuts in state services, including healthcare (31 states), services to the elderly and disabled (29 states and the District of Columbia), K-12 education (34 states and the District of Columbia) and higher education (43 states.) Ironically, as revenue has fallen due to the recession, the need for such services has risen.

IMPLICATIONS FOR BUSINESS: Those needs, coupled with the growing trend to prioritize key services, will fuel a broad range of new business opportunities in the years ahead.

DID YOU KNOW?

America's best-selling motorized vehicle is the Ford F-Series. Some 528,349 were sold last year.

WHAT'S NEXT FOR THE ENTITLEMENT SOCIETY?

Much of the economic and political turmoil now unfolding around the world can be at least partially explained by the simple observation that if something can't go on forever, it won't.

Prosperity and security that were taken for granted just a few years ago have proved illusory. To at least some extent, we are witnessing the end of the Entitlement Era—an historically brief period stretching from some time during the post-war years to roughly 2008. During those years relatively sustained levels of economic growth and social stability created the widespread understanding in North America and Europe that jobs, decent wages, an improving standard of living and necessary allotments of social assistance would be available or provided to all or most individuals.

Only now, as the global economic recovery sputters and governments around the world are confronted with scarcity, has it begun to sink in that such entitlements were never really iron-clad guarantees in the first place.

Protests Proliferate

For the populations of Western countries in particular, this is a traumatic loss. Many of the political upheavals witnessed over the past several years can be seen as workers' initial attempts to come to terms with their new realities. From the violent protest movements in Greece and other European countries to the frustration voiced by both U.S. Tea Partiers and Wisconsin labor unions, the pattern of reactions to a perceived loss of a way of life is reminiscent of the classic Kubler-Ross model of the five stages of grief: denial, anger, bargaining, depression and acceptance.

Denial has been in evidence everywhere, but is perhaps best exemplified by E.U. officials denying the existential threat of the sovereign debt crisis slowly devouring a united Europe. Anger, bargaining and—increasingly—depression have likewise become defining features of contemporary society in an era of layoffs, long-term unemployment and government austerity.

Although it may seem unlikely at this uncertain moment, Western populations will eventually reach the fifth stage of acceptance. But that will occur only after society completes a process of radical readjustment that has only just begun.

Although it is impossible to envision precisely what the world that emerges from this process will look like, we can make one prediction with some degree of confidence: The Entitlement Society will give way to a "Means-Tested Society." In the latter, wealthy individuals will pay considerably higher tax rates and even upper-middle class will be excluded from social programs that can no longer be universally funded by governments. Meanwhile, a large underclass including the growing ranks of citizens structurally unemployed due to a lack of education and technical skills will compete for resources with a medical sector that consumes an ever-growing share of government expenditures. How can we be sure that Western society will readjust to this new reality? There is no alternative: If something can't go on forever, it won't.

IMPLICATIONS FOR BUSINESS: The inevitable reduction of government social spending and the likely imposition of means-testing for former entitlement programs could dramatically increase the importance of employer-sponsored benefits. With fewer workers qualifying for government benefits (once almost universal in scope) and remaining participants receiving significantly reduced benefits, employer-sponsored retirement plans will emerge as a bedrock savings tool for millions of U.S. workers, and employer-sponsored healthcare will remain a coveted means of ensuring high-quality care.

On the retirement front, the increased focus on 401(k) and other pension plans will have both pros and cons for businesses: On the plus side, access to a pension plan will become a powerful lever for talent-hiring and retention. A potential negative consequence is that companies will come under increasing social—and perhaps regulatory—pressure to maintain robust contribution "matches" and incur costs associated with providing workers with appropriate levels of advice and support.

Y GENERATION STALLED AS MANY BABY BOOMERS KEEP WORKING

One unmistakable trend in this era of major and continued joblessness is that many in America's huge population of Baby Boomers, now beginning to reach the traditional retirement age of 65—10,000 every day—are simply not leaving the workforce. (For people born after 1960, full Social Security benefits won't kick in until they are 67.)

This all does not bode well for the Y Generation of recent high school and college graduates. Many say this new generation may be the first in the nation's history to experience downward mobility, failing to do better than their parents.

The latest official unemployment rate for 20-24-year olds, the so-called Millennials, is nearing 15%—a figure that excludes the many discouraged young people who have just given up looking for work. More than 40% of working Americans are now 55 or older and 22% are 65 and older—and those percentages keep rising.

The reasons why Baby Boomers remain in the workforce are varied—mostly financial in a weak economy, but also personal and psychological as well as an adaption to a new era of longevity. Thanks to repeated stock market gyrations and severely depressed interest rates, many older workers have seen their retirement savings steadily shrinking and the value of their prime asset, their homes, decline radically.

Add to this mounting concerns about future Social Security payments and healthcare coverage. All of this is compounded—in the private sector, particularly—by the virtual disappearance of defined (i.e., guaranteed) benefit pension plans that have been largely replaced by contribution pension plans such as 401Ks.

Of perhaps equal importance is an increasingly healthier and longer-living population. Many people today feel that retirement often pushes them into a limbo of boredom and uselessness. They want to continue to contribute, make a difference, be part of the "real," working world. While this may be perfectly understandable, it also has the potential to fuel an unfortunate and inevitable conflict with the interests of young people eager to enter the workforce and launch careers.

IMPLICATIONS FOR BUSINESS: An older workforce would appear to have mixed implications for business—and society as a whole. On the one hand, retaining mature, skilled, highly experienced, loyal workers can be a plus—even if more costly than hiring younger employees. But a technologically savvy, well-educated young generation, full of hope and self-esteem, being forced to put their lives on hold, can have dire implications for the longer-term economy. The loss of such talent, creativity and innovative potential, which often erodes with the passage of time and no work, cannot be viewed as a positive development for business.

DID YOU KNOW?

The British prison population is at a record level for that nation of 86,654 inmates. But that is modest compared to 1,650,000 in China, 793,300 in the Russian Federation and 496,251 in Brazil. Nonetheless, the U.S. has the largest prison population: 2,292,133 Some of that should be lowered by California's release of 30,000 prisoners because of budgeting pressures.

GREED: A DISTURBING TREND?

After 9/11, everyone said: "everything has changed." We believed we were entering a new era of unity and mutual support. Unhappily, a decade later, polarization has exploded and greed motivates all too many.

A startling increase in wealth inequality may have been one of the least visible, but most significant consequences of the global economic crisis.

Today, the income gap in the United States is greater than it has been at any point since 1928. The top 1 percent mow controls an estimated 40% of the nation's wealth. It is so wide, in fact, that it exceeds that of many developing countries, including Egypt, Tunisia, the Ivory Coast and Cameroon.

The most recent statistics indicate that there are more impoverished Americans today than there have been since the Census Bureau began tracking poverty rates 52 years ago. An estimated 46.2 million Americans, almost 15%, live below the official poverty line. This figure includes 18% of the country's youth and 16.1% of its elderly. More than 23% of households with children went hungry at one time or another in 2010. The forecast for recovery remains bleak, even as the economic outlook begins to improve. People are clearly suffering. Yet, greed has become increasingly evident in the most privileged sectors of society and within the elite ranks of corporate culture.

The richest Americans hold more wealth today than they have at any other time in modern history, with the top one percent of earners taking in over one fifth of the country's total personal income. Two-thirds of America's wealthiest are executives, benefiting from exorbitant compensation packages—reaping unprecedented rewards, even as efforts to "right-size" corporations have decimated employment levels for the rest of the population. Executive compensation has quadrupled since the 1970s. Last year, CEOs at the largest 200 corporations took home an average of $10.8 million each—23% more than in 2009—while the average worker's pay increased only 0.5 percent.

At the same time, charitable giving is on the decline. In 2009, philanthropic donations fell 3.6 percent, marking the sharpest drop in five decades. Although the picture has improved slightly since then, growth in this area is once again beginning to slow and is expected to slide further during the fourth quarter of 2011. Recent sociological studies show that the affluent are less empathetic than other classes. In a marked divergence from earlier decades, the altruistic imperative amongst the ranks of the wealthy seems to be waning.

The inequality we are seeing is not limited to the U.S. While income disparity is generally typical of developing countries, the gini coefficient, a standard measurement of income disparity has increased by over 10% in O.E.C.D. countries since the mid 1980s. Largely driven by changes in the distribution of salaries and wages, conspicuous earnings gap increases were seen almost across the board, including Finland, Germany, Israel, New Zealand and Sweden.

IMPLICATIONS FOR BUSINESS: Excessive wealth disparity is inherently destabilizing and its rise will have negative ramifications for national and global economic growth and social progress that should be cause for great concern.

- Income inequality is associated with lower savings rates and reduced discretionary spending, particularly within an increasingly disenfranchised middle class.

- It is also linked to declines in population-wide health—with the potential to disrupt workforce efficiency while placing greater demands on national healthcare spending.

- The unbalanced allocation of resources is known to breed corruption, which can thwart economic growth by hindering the efficient distribution of resources, triggering distorted investments and asset price bubbles.

- Extreme wealth differences contribute to the segregation of the rich from the poor and lead, ultimately, to human suffering. As this happens, the class struggle and societal unrest will be ignited.

The rate at which the wealth gap is ballooning might be lowered eventually, but inequality unfettered tends to breed more of the same and, for the time being, it shows little sign of letting up.

DID YOU KNOW?

Every day we now produce in the world 15 petabytes (a unit of information or computer storage equal to one quadrillion bytes) of new information—eight times the information currently in all U.S. libraries.

THE U.S. UNIVERSITY SYSTEM RULES

Few will dispute that the United States has the best higher educational system in the world. U.S. colleges and universities are filled with students from abroad. Yet, we hear a lot about the troubled state of the public education system. But at the more advanced level, the U.S. remains the leader. Recent studies estimate the U.S. is home to more than half of the world's top 100 universities.

The intellectual excellence does not end there. Of the $1.2 trillion the world spent on research and development activities last year, $400 billion was spent in the U.S. Europe in aggregate spent less than $300 billion. Totals for China and Japan were each around $150 billion. Other nations were far behind.

Admittedly, China educates 600,000 engineers a year to 60,000 in the U.S. But more than half that very large Chinese figure is made up of technicians trained in two-year colleges. Comparing apples to apples, the ratio is more like 200,000 to 60,000 and U.S. students attend far better universities. Some 19 million U.S. students will be enrolled in colleges and universities this Fall—up by more than a third from 20 years ago.

IMPLICATIONS FOR BUSINESS: It is clearly in the nation's long-term interest to sustain and grow America's higher education system. Businesses that can find ways to partner with colleges and universities can contribute. Encouraging local, state and federal policymakers to support higher education will also be helpful. Obviously, a diverse and steady supply of well-educated college graduates remains an essential foundation for prospering businesses and a thriving national economy.

DID YOU KNOW?

The nation's more than 14,000 separate school districts now employ 3.3 million public school teachers. Charter schools across the country are staffed by 72,000 teachers.

MANUFACTURING HERE HOLDING ON AS INFRASTRUCTURE CRUMBLES

China's prowess and progress in economic growth and in manufacturing are remarkable and commendable. Nonetheless, the U.S. remains a key manufacturer measured by value added to its products although, due to automation, the number of workers needed on factory floors has declined. Setbacks in the U.S. in recent decades in areas like steel, concrete, textiles and autos have been partially compensated for by continued excellence in aircraft, pharmaceuticals, industrial chemicals and computer-based technologies (especially software and related products). Even the auto industry is rebounding as overall sales for American cars jumped nearly 10% in July alone.

Also noteworthy is the current natural gas renaissance here, which, by lowering fuel prices, has coaxed some manufacturing back to the U.S. and restrained some that might otherwise have left.

Although foreign nations, in total, just overtook Americans in the number received each year, the U.S. still generates about 48% of the world's patents. Know, however that several countries—notably China—have no hesitation to copy patented products and services and claim them as their own.

Thanks to the relative openness of the U.S. society, its innovation, advanced technology-based manufacturing and the dependability of its legal systems, the World Economic Forum placed the U.S. at No. 4 in its World Competitiveness Ranking for 2010. The countries ahead of the U.S. were Switzerland, Sweden and Singapore with combined populations far less than that of California.

A national and bipartisan coalition of state and local elected officials recently issued a report on the subject, "Falling Apart and Falling Behind." It offered a sobering assessment of transportation-infrastructure investments in the U.S. compared with the huge investments being made by our global economic competitors.

Top Ranking From WEF

As recently as 2005, the World Economic Forum ranked the U.S. No. 1 in infrastructure economic competitiveness. Today, the U.S. is ranked only 15th. This is not a surprise considering that the U.S. spends only 1.7 percent of G.D.P. on transportation infrastructure while neighboring Canada spends 4 percent and China 9 percent. Even as the global recession has forced cutbacks in government spending, other countries continue to invest substantially more than the U.S. to expand and update their transportation networks.

China has invested $3.3 trillion since 2000 and recently announced another $105.2 billion for 23 new infrastructure projects. Brazil has invested $240 billion since 2008 with another $340 billion committed for the next three years.

The result? China now boasts six of the world's busiest ports—while the U.S. is not home to one. Brazil's Acu Superport is larger than the island of Manhattan with state-of-the-art highway, pipeline and conveyor-belt capacity to ease the transfer of raw materials onto ships heading to China.

IMPLICATIONS FOR BUSINESS: The U.S. government's continued neglect of infrastructure will consign this nation and its children to economic decline. Rebuilding America's future cannot be a Democratic or Republican political cause. It must be a national undertaking. Less stringent environmental regulations right now could help manufacturing even more to get its economy back on track. The U.S. must develop a national infrastructure strategy for the next decade. This policy should be based on economics, not politics. Washington must finally pass a multi-year transportation bill; target federal dollars toward economically strategic freight gateways and corridors; and refocus highway investment on projects of national economic significance such as New York's Tappan Zee Bridge across the Hudson, where, typically, capacity restraints now impose serious congestion and safety costs mount in an economically vital region.

THE NEW AMERICAN FAMILY

The number of Americans ages 25 to 34 living with their parents is now about 5.5 million—roughly 13% of that age range. Grandparents are moving in with their children as well.

One *Slate* writer recently opined online that, for young people expecting to be independent, the small humiliations of living at home are endless. It asked: "How do you date, invite friends over, feel like a grown-up going to a job interview when your mom is polishing your shoes?" Does this mean we will see a new American family emerging? Perhaps.

Today, more than 40% of American children are born to unmarried mothers. Many families include gay parents, adopted children or children conceived via a variety of non-traditional fertility techniques. Meanwhile, unprecedented numbers of couples are choosing to marry, but not have children.

IMPLICATIONS FOR BUSINESS: Major new marketing opportunities can spring from this new family paradigm in America. Politicians will also have to fashion different appeals. And organized religion will need to rethink the way it reaches this new market.

WHERE THE MONEY GOES

Here is a list of the top 20 countries that received foreign aid (plus the totals) from the U.S. Agency for International Development (USAID) during 2010 and the first quarter of 2011:

RANKING	COUNTRY	FY 2010	FY 2011
1	Afghanistan	$2,755,671,228	$57,610,006
2	Pakistan	1,351,634,685	343,698,200
3	Haiti	701,379,625	133,601,639
4	Israel	596,529,460	504,696
5	West Bank/Gaza	387,120,025	168,674,476
6	Kenya	500,427,374	5,580,373
7	Sudan	462,877,610	37,239,593
8	Jordan	363,375,929	100,249,366
9	Ethiopia	350,258,089	27,219,396
10	Georgia	339,465,998	10,405,429
11	South Africa Republic	347,449,184	1,953,872
12	Egypt	320,115,027	8,242,346
13	Nigeria	295,792,542	23,333,516
14	Tanzania	312,689,352	3,134,891
15	Uganda	269,467,038	11,850,768
16	Iraq	220,524,820	60,688,407
17	Indonesia	262,002,937	17,848,628
18	Democratic Republic of Congo	163,325,098	92,438,351
19	Mozambique	234,429,203	4,379,934
20	Liberia	229,133,134	8,070,512
	TOTALS:	$10,463,668,358	$1,116,724,399

IMPLICATIONS FOR BUSINESS: Foreign aid can come in the form of a direct grant/gift or a loan. The rationale for such aid ranges from national security/foreign policy dictates to commercial/economic objectives and straightforward humanitarian motives. Many of the committed dollars also come back to this country in payment for goods and services purchased from U.S. suppliers. Nonetheless, pressures to radically slash foreign aid budgets are growing, as reflected in the markedly reduced outlays for the first quarter of 2011.

DID YOU KNOW?

17% of people married in the U.S. during the past three years met online.

LIBYA/EGYPT/SAUDI ARABIA/ IRAN/ISRAEL/TURKEY:

THE EMERGING NEW MIDDLE EAST

Thousands of papers are being written about each of these countries and their internal issues. These range from Egypt, where elections will presumably be held this Fall, shaping the entire region, to Libya, formerly a wholly-owned asset of Muammar el-Qaddafi and where now an entirely new state needs to be created, to Iran, a haven for protecting and funding terrorists.

What is clear is that a new reality will be taking place in most of these countries, each of which has plenty of money to fund its future. There will be stops and starts, and expect plenty of opportunists to materialize seeking to exploit the new climate, with only some successful. We are in the early moments of fundamental change in the Middle East, which will shape the region for the next generation.

IMPLICATIONS FOR BUSINESS: Tremendous opportunity. Tremendous risk. Intelligence on what is happening in real time will be the key to success.

LIBYA, OTHER "ARAB SPRING" NATIONS, STILL A QUESTION MARK

It is just too early to tell what the new government in Libya will look like. The uprising remains very much an unfinished revolution. The central fact is, however, Colonel Qaddafi, who ruled the oil-rich country for over four decades, is out and a popular uprising, with, admittedly, a fractured leadership, is, to the surprise of most observers, gaining authentic power.

Many informed analysts believe the rebel military triumph was basically rooted in three realities: 1) Engaging both the E.U. and the Arab League in a joint effort to support the rebels so that this nation did not appear to be sponsoring them; 2) The U.S. stepping back and allowing nations like France and the U.K. to take the lead in the air offensive against Qaddafi's military (over 17,000 aerial sorties), 3) The decision not to put NATO troops on the ground, which would have enabled the Qaddafi forces to win public support against another imperial invasion of an Arab nation. Although outside military back-up was critical, the Libyans, as in Tunisia and Egypt, proved to be their own liberators.

That said, uncertainty rules in the wake of the "Arab Awakening." It is never easy to construct a viable democratic government after a long-established, often ruthless and despotic regime is deposed. In Libya, there is certainly disunity among the rebels, a lack of existing democratic institutions and intense, long-standing ethnic and tribal rivalries to deal with the disposition of the country's vast oil reserves. The Transitional National Council has its work cut out. It will require continued support and close monitoring from their new allies while avoiding violent reprisals.

Ideally, a democratic rebirth of freedom will be the order of the day. Nonetheless, the transition in the Arab world is a work in progress, making it foolhardy at this stage to predict the final outcome. History shows that all too many idealistic movements, launched in pursuit of freedom, end up otherwise.

IMPLICATIONS FOR BUSINESS: Restoring Libya's key oil industry with the direct aid of major global oil equipment/production companies (including "Big Oil") will be the No. 1 economic goal of any new government. Since many wells have been damaged, it may take at least a year or more to reach pre-war production levels of 1.6 million barrels a day. But as many as 300,000 barrels a day is achievable in only a few months Before hostilities broke out, the U.S. imported a very negligible amount of its oil requirements from Libya. Most European countries, on the other hand, depend heavily on Libyan oil. Libya may also provide new investment opportunities unavailable under Qaddafi's unpredictable rule.

DID YOU KNOW?

The British prison population is at a record level for that nation of 86,654 inmates. But that is modest compared to 1,650,000 in China, 793,300 in the Russian Federation and 496,251 in Brazil. Nonetheless, the U.S. has the largest prison population: 2,292,133 Some of that should be lowered by California's release of 30,000 prisoners because of budgeting pressures.

RELIGIOUS STRIFE ON THE RISE

There has recently been a substantial global increase in religious strife—principally involving violence against, and abuse of, Christians and Muslims. During this period of increased religious animosity, government restrictions on religious practices have also risen. Legislative and authoritarian limitations on religions have only fueled the fire of societal and interreligious tensions.

Religious strife and violence is a phenomenon that touches all too many people. An estimated 2.2 billion, over one-third of the world's population, live in countries that have reported hostilities or restrictions tied to religion.

While the greatest number of state restrictions on religion are found in the Middle East and North Africa, government limitations on religious expression have also become more evident in some Western and European countries. In France, a social debate erupted over its legislature's decision to prohibit Muslim women from wearing head-to-toe religious coverings. Rioting in the U.K. and the slaying of Muslims in poor neighborhoods there are also believed by many to be a manifestation of racial and religious intolerance. The recent massacre in Norway by a rabid anti-Muslim zealot only escalated the tensions.

More Attacks After 9/11

Since the terrorist attacks of September 11, 2001, acts motivated by Islamic extremism and rejection of Western culture, religious tensions, particularly in North America and Europe, have escalated. In the wake of the tenth anniversary of the September 11th attacks, some of this animosity has taken on a renewed life.

To be sure, there have been various attempts to promote interfaith dialogue by religious and secular leaders, and global institutions such as the United States Institute of Peace, the Dalai Lama and the Vatican. These efforts have been replicated at a more local level. Religious leaders in places like Brandywine Hundred, Delaware and the Yale University Divinity School have initiated dialogues promoting tolerance and understanding among different faiths.

Also, an appeal for tolerance has come from Pope Benedict XVI, who has said religious leaders have an “enormous responsibility’ to imbue society with a profound awe and respect for human life and freedom; to ensure that human dignity is recognized and cherished; to facilitate peace and justice; to teach children what is right, good and reasonable.”

Most recently, the Holy Land Conference in London brought together Christian, Muslim and Jewish leaders to start a dialogue about a shared future. At the end of the Holy Land Conference, Archbishop of Canterbury Rowan Williams issued a benediction that in many ways characterizes the movement for interfaith dialogue worldwide: “We cannot wait for politicians to sort things out. We have got to make a difference ourselves.”

IMPLICATIONS FOR BUSINESS: The aforementioned ecumenical efforts notwithstanding, religious strife is increasing worldwide—particularly among developing countries in Africa and the Middle East, where businesses see great opportunities for growth. Social unrest tied to religious strife often promotes economic imbalance while sectarian conflicts have precipitated frequent terrorist attacks on important religious sites, contributing to social upheavals. Religious hostilities have also incited riots in countries like Denmark, France and the U.K., further threatening an already uncertain economic recovery in Europe.

DID YOU KNOW?

The global population is currently increasing at a rate of over 80 million annually. During the last half century or so, total world population—now approaching 7 billion—more than doubled.

U.N. SET TO RECOGNIZE PALESTINE AS MEMBER-STATE

The pending vote in the U.N. General Assembly, now underway in New York, for recognition of the Fatah-led Palestinian National Authority as a sovereign nation-state could seriously block future resolution of the Palestinian-Israeli crisis. The U.S. is expected to oppose the move in the Security Council, which will more than likely reinforce the hard line of the conservative Israeli government under Benjamin Netanyahu.

Recognition, underscoring Fatah's leadership role, will also afford the Hamas opposition, still in control of Gaza, an opportunity to create more mischief while testing the crucial support for Palestine of Egypt's current military government or its successor.

Proponents of the move, however, say that passage of the U.N. resolution will further isolate Israel and raise international pressures to resolve the settlement issue at the core of the Palestinian-Israeli standoff—a struggle that has now been festering for well over four decades. Any realistic assessment these days must conclude that the crisis remains a long way from any final agreement.

Such an agreement would probably create two independent states with guarantees for Israel's national security, some kind of symbolic compensation for displaced Palestinians, but no physical return and mutually-acceptable land swaps modifying the 1967 borders.

IMPLICATIONS FOR BUSINESS: Most Middle East experts agree that the seemingly endless, explosive Palestinian-Israeli conflict has served the aims of Muslim jihadists, who often place it at the top of their list of grievances against the West. To the extent that this hot-button issue remains unsettled, fueling terrorism, global business will be impacted negatively.

TERRORISTS: IRAN, IRAQ, YEMEN, PAKISTAN, SYRIA

Despite the death of Osama bin Laden and that of many al-Qaeda leaders, terrorists of various stripes will be with us for the foreseeable future, trying to destabilize civilized society. They will stop at nothing.

The Ramadan observance was recently completed. Forty-four incidents, most not reported, marked the start of the period. Al-Qaeda has recently announced a 100-attack campaign of violence to exact revenge for the killing of Osama bin Laden. It has also become decentralized—almost a local franchise in different countries with different goals.

Iran, which is the heart of the problem, has moved troops near the Kurdish regions of Iraq. Expect action there, especially as the U.S. pulls out. Iran is funneling significant amounts of money to al-Qaeda leaders in Pakistan and Afghanistan.

The elections in Egypt, postponed once, are just weeks away and the outcome will have crucial implications for the Middle East and the world.

Thousands are working to forge political unity among Muslim groups and challenge efforts to limit their power. There is a distinct possibility that much of the country might be governed by Islamic law. The content and form of the new Egyptian constitution may be key.

Killings are a daily occurrence in Syria where, despite tougher sanctions, Assad will likely hold on to power. His military has already slaughtered over 2,200 protesting Syrians. Much of Pakistan is without law. In Karachi, that nation's largest city with a population of between 13 million and 15 million, ethnic, political and religious strife, provoked by terrorists, is the order of the day. Yemen is also in crisis. Hopefully, Saudi Arabia's heavy influence in Yemen may have a restraining influence on terrorism there.

IMPLICATIONS FOR BUSINESS: Terrorism is deeply rooted in many highly sectarian, tribal Middle East societies. It is well-funded. It is committed. It can affect anything a business person does anywhere in the world.

CHINA'S GLOBAL MISSION

This vast, fast-growing, complex country is well on the way to becoming the No. 1 economy in the world. But China has serious problems.

China is working to dominate East and Central Asia. The country is building ports around Pakistan, India and Myanmar It is also moving to gain an economic position in the Philippines and Indonesia by supporting political change in those countries. The military potential of these actions should not be lost on the reader.

China already has the largest army in the world at 2,285,000 strong. This is a very well-trained corps of men and women who are as skilled as any in the world at what they do.

In business after business, China, a nation rife with corruption, has taken patents from other nations to make its own goods and services. In many areas, China's threats and demands go far beyond the norm. Inflation is high, running at nearly 7 percent and a solution does not appear on the horizon. The Chinese government regularly blacks out news that it does not consider positive for its people or its role in the world. Its blackout of a devastating high-speed train crash is a recent disturbing example. There is no free press anywhere in the country.

Violence and riots occur on a regular basis in the populated and sophisticated coastal cities as well as in the interior with particular upheavals in the Muslim regions of the sprawling nation.

All this said, the Chinese market is immense and the Chinese ability to manufacture is incredible and growing.

IMPLICATIONS FOR BUSINESS: China continues to be a fertile and rapidly expanding economy offering tremendous opportunities. Understanding what is going on in this highly complex nation is very difficult and change occurs in an instant. Be very careful. The Chinese intend to win in all they undertake and take whatever steps may be necessary to do so.

RUSSIA: A TIME TO BE ALERT

"The greatest geo-political catastrophe of the century."

--Vladimir Putin
Referring to The Collapse of The Soviet Union

Vladimir Putin, who will soon be running for the top political post in Russia, is determined to restore his country—by whatever means necessary—to a position of world power. Meanwhile, Dmitry Medvedev, the incumbent opponent, appears quite passive and unwilling to fight to keep his job.

Although booming oil and gas revenues have buoyed the economy recently, Russia is a nation beset by corruption, declining birth rates, environmental disasters, an uneven healthcare system and economic woes for the majority of 140 million Russians, who look anxiously into the future. Leadership is devious on many fronts, whether on behalf of Russian citizens, business or relationships with other nations. Russia has also undertaken an outreach to Iran. Little good will come from this for the West.

The country is building its army and technology in support of the military, strengthening its Black Sea Navy and forging treaty arrangements with Germany. Business activity, the health of its people, restoration of the environment, the rule of law and more continue to decline with little positive change in sight.

The Soviet Union was broken up 20 years ago, but debilitating issues remain. Mr. Putin has eliminated the election of governors, taken over television networks and reinstated a culture in which free-speaking journalists get murdered. The average Russian has virtually no civil or property rights.

IMPLICATIONS FOR BUSINESS: What is going to happen in Russia is up for grabs—especially if Putin regains the presidency. This is a lawless country where results are often achieved by fear and terror. There are investment gains to be achieved, but proceed with caution going forward.

THE AFGHANISTAN TIMETABLE

October 7 will mark the tenth year since the start of the Afghan War.

Pressures to remove all combat troops from Afghanistan by the end of 2012, or soon afterward, rather than in 2014 as proposed by President Obama, will intensify in the coming months as the costs of the operation, estimated at well over $2 billion a week, and continued U.S. military casualties, undermine support from a war-weary public in a nation still facing formidable domestic economic problems.

Although U.S. military leaders oppose any pullout before the 2014 deadline, most polls indicate that a majority of Americans now favor a withdrawal sooner rather than later. This has become an authentic bipartisan issue with support from Republicans and Democrats as well as the Tea Party.

A vocal group, however, argues that even a 2014 withdrawal is good news for the Taliban, which will simply wait us out as will al-Qaeda forces now in Pakistan. In rebuttal, those who want to pull out say that, in the event of such a development, U.S. Special Forces could move in quickly along with drones and the U.S. Navy flotilla that continues to patrol the Gulf.

What the advocates of an accelerated pullout oppose is the costly, open-ended nation-building we have launched in this ancient land while terrorist forces have a much greater presence elsewhere on the globe and our presence in Afghanistan often seems to fuel popular support for the Taliban.

Today, despite a massive effort to train Afghan security forces, they remain unreliable. Afghanistan is awash in corruption and still largely ruled by Afghan tribes all distrustful of one another and essentially unwilling to join a weak national government. So, the argument goes, staying in Afghanistan for three more years may make little permanent difference other than expending more American blood and treasure.

Of course, the harsh status and treatment of women in many parts of Afghanistan—especially the Pashtun areas—remains a concern of the Americans and their allies. That surely will be part of any negotiations with more moderate Taliban groups before a major pullout is completed.

IMPLICATIONS FOR BUSINESS: Whatever the final resolution of the decade-long engagement in Afghanistan, the results will be mixed for business. War and conflict, no matter where, are good for the nation's very large and important national defense industry. But the ability to use the billions expended every week in Afghanistan to trim the deficit and finance the essential task of re-building the U.S.'s crumbling infrastructure—i.e., nation-building here at home—could gave a major boost to a flagging economy.

DID YOU KNOW?

Harry Truman was the last president not to have a college degree.

TURKEY IS STILL GOOD NEWS

Turkey's June 12th election reconfirmed the popularity of the ruling party, the AKP, by a solid 49.9% vote in its favor. Moreover, the opposition parties are still far from displaying a credible opposition to the AKP. Bottom line, not much possibility of a political crisis in Turkey's future.

The foreign policy of the AKP is still proving to be effective in placing Turkey at the center of developments in the Middle East. In Libya, the overthow of Colonel Qaddafi confirmed the realism of the Turkish stance. However, the events in Syria and its impact on the whole region—that is, Iran, Lebanon, Israel and Iraq—continue to be a cause of serious concern. Relations with Iran are of utmost importance to Turkey, particularly in view of Iran's support for the Syrian regime, Hezbollah and Hamas. Turkey needs to follow a very delicate line in order not to jeopardize its interests. It may be fair to state that its policy so far has been prudent. The Syrian regime may be fighting an uphill battle and find it increasingly difficult to control opposition groups. The developments in the region are changing colors rapidly. Nonetheless, Turkey seems to be managing them without serious problems.

The main issue for Turkey is still the Kurdish issue. Although much has changed and improved during the last decade, it is still far from a comprehensive settlement. The Kurdish groups are in disarray and the credibility of their representatives is being questioned. This implies that the Turkish government needs to put in play a reform process profoundly, unilaterally and in a result-oriented way. The AKP government has not produced a comprehensive plan to take on this challenge. It seems that this issue will be the main headache for Turkey for quite some time.

As for the economy it is very good and prospects for the future are excellent.

IMPLICATIONS FOR BUSINESS: The Turkish economy does, indeed, offer an exceedingly good investment appeal over the mid-to-long-term in consumer goods, but especially in areas such as energy, healthcare, health tourism and, above all, intermediate goods production. The Turkish domestic market has reached a size that exceeds the minimum efficient scale for most industries, which will give it the required footing to compete both internationally and domestically. This will create conditions for investors who are not in a hurry for short-term gains to make good acquisitions at favorable valuations.

BRAZIL, THE LATIN-AMERICAN DYNAMO FACING ECONOMIC SLOWDOWN

We have written about trends in Brazil before, but this dynamic, Portuguese-speaking nation—the largest in Latin America in both land mass (8,510,000 square miles) and population (now 194 million)—remains the Latin American powerhouse despite a recent economic slowdown. It posted a 7.5 percent growth rate in 2010.

First, the good news: Many facts on the ground continue to promote growth: A commodities (agricultural and mineral) explosion, new oil discoveries, a strong, emerging entrepreneurial class, stable political and financial institutions, selection as the site of the World Cup in 2014 and the Olympics in 2016, a vital, technologically-advanced manufacturing sector (autos, TVs, computers, appliances, not to mention aviation giant Embraer, third globally behind Boeing and Airbus) and numerous additional signposts of a robust, diversified economy.

Dilmaa Roussseff, Brazil's first woman president, is effectively advancing the policies and changes introduced by her immediate predecessors, the charismatic Lula da Silva and, earlier, Fernando Cardoso. Her recent policy shifts suggest the country is giving priority to growth over looming inflation with proposals to reduce interest rates, raise the minimum wage and further strengthen the microcredit system.

Brazil does not appear to be a bubble. Recognizing the nation's potential, foreign investments keep increasing, topping $48 billion last year. More than any other country, China once again has taken the lead here, investing as much as $37 billion during the past eight years or so—primarily in natural resources such as oil, a circumstance that might give the U.S. pause.

The nation's overall economic and social realities should, however, be kept in perspective. Much of the recent economic boom has been fueled by a singularly easy credit environment led by the state-owned Brazilian National Development Bank. The threat of serious inflation is very real. Corruption is also endemic, nourished by a stifling bureaucracy and a complex tax system.

Moreover, although there were a dozen new Brazilian names on the latest *Forbes* listing of the world's wealthiest individuals, Brazil remains a country of vast poverty and inequality. Ecological problems also abound, including the overly exploited Amazon Rainforest. Slowdown or not, the changes have been dramatic and steady, turning Brazil into a vibrant, forward-looking society that demands global attention.

IMPLICATIONS FOR BUSINESS: As Europe flounders, and despite inevitable uncertainties, including a recent, relatively flat stock market, Brazil, along with neighboring Chile, remain among the more attractive venues for overseas investment among the emerging, fast-developing nations of the globe. That is especially true for the infrastructure sector where Brazil offers major opportunities as only 12% of its approximately one-million miles of roadway is currently paved.

DID YOU KNOW?

Of the 50 states and the District of Columbia, Nevada currently has the highest official unemployment rate at 12.9%. North Dakota has the lowest at 3.3 percent.

CUBA: MOVING TO FREE MARKETS, BUT SLOWLY

How long can the Castro brothers hang on?

It's now over a half century since the Cuban revolution led by Fidel Castro overthrew the Batista dictatorship and established a paternalistic communist state in Cuba. Ever since, massive efforts—military and covert including a tight trade embargo under 11 U.S. presidents—have failed to bring down Castro.

Under the Obama Administration, that embargo has remained in effect although enhanced remittances and travel have risen substantially. The $1.4 billion annually now remitted by Cuban-Americans to their relatives back home has become an important prop of the stagnant Cuban economy.

All evidence from the island 90 miles off the Florida coast indicates that Cuba is very slowly adopting a market-driven economy, moving in the same direction taken by other once rigidly communist nations such as China and Vietnam. Even an ailing Fidel Castro acknowledged in an interview that "the Cuban model doesn't even work for us anymore."

Soviet Downfall Critical

Actually, change began to unfold as far back as 1991 when the Soviet Union, Cuba's principal foreign supporter, was dismantled, leaving the island's economy in shambles. Now, the failing health of ally Hugo Chavez could pose a problem since Venezuela provides an estimated $5 billion annually in aid to Cuba.

But change has accelerated greatly since Fidel's younger brother, Raul Castro, took power in 2006. Reform and modernization have produced a number of free-market developments with a special emphasis on private entrepreneurial activity, although many entrepreneurs complain about a lack of access to credit, a wholesale market and high taxes.

The government, having issued a vast number of so-called self-employment licenses, is also pulling back from its traditional role as the nation's prime employer. Free healthcare and education plus low-cost housing remain in place, but not too long ago, some 500,000 Cubans were dropped from government payrolls. A basically collectivized agriculture is also yielding to many small, privately owned farms.

Less progress has been made on the political and human rights front though pressures from the U.S. and U.N. continue. In the wake of the Cuban revolution, an estimated 1.5 million refugees, mostly middle class, fled to this country and eventually emerged as a significant factor in Florida and U.S. politics. However, with the rise of a second and third, U.S.-born generation, anti-Castro fervor has diminished noticeably.

On the positive side, Raul Castro released a large number of political prisoners last summer although free elections and genuine freedom of expression are still largely absent. Most informed observers believe that Cuba's communist days are numbered, but also agree that, as long as Fidel Castro remains a powerful, living, symbolic figure, major radical change will not take place.

IMPLICATIONS FOR BUSINESS: The Cuban economy should keep growing with the potential to evolve into a powerful economic hub and magnet just south of the United States.

DID YOU KNOW?

According to the latest (2010) U.S. census data, over 800 different languages are currently spoken by New York City residents, making it the most linguistically diverse metropolis in the nation—and probably the world.

HISPANICS: THE FUTURE

Hispanics accounted for more than half of the U.S. population increase over the last decade. Indeed, racial and ethnic minorities make up 90% of total U.S. growth since 2000, reflecting both immigration and higher birth rates for Latinos. According to 2010 U.S. Census findings, Hispanics now exceed 50 million—one in six Americans. Hispanics also account for one in four of America's children.

The Latino population is growing at a rate of two million per year. One out of every three Census respondents under 30 was listed as Hispanic. Hispanics contributed 53% of the total U.S. population growth from 2000-2010. The 18-34 Latino population is growing five times faster than the rest of the market. Two-thirds of Latinos are now native-born.

Hispanics account for over $1 trillion of market spending today. This figure is growing at approximately $100 million annually. U.S. exports to Latin America are two-to-three times greater than those to China.

IMPLICATIONS FOR BUSINESS: Hispanics will form the bulk of domestic labor force growth in the next decade as they disperse to other parts of the U.S. beyond the Sun Belt. Their market clout is huge and should be more aggressively targeted than ever before.

BATTERED NORTH AFRICAN TOURISM GIVES BOOST TO OTHER DESTINATIONS

Worldwide travel and tourism has recovered dramatically from the post-9/11 meltdown, but has also recently taken a major hit in North Africa stemming from the events of the "Arab Spring."

Tourism in Tunisia, for example, which provides essential revenue for two million of its citizens, is down almost 40% this year. Similarly, in Egypt, the tourism industry has seen a 35% drop in revenue and losses of $1 billion per month. Military action in Libya has totally destroyed the formerly thriving travel industry there, while increasing oil prices from that country impact the rest of the world.

Asia is another region that has seen a major tourist fall-off—specifically Japan. The earthquake, tsunami and nuclear reactor events that devastated parts of Japan slashed travel to that country by as much as 63%.

In these destinations, as well as in other parts of Africa and the Middle East, are frightening off tourists along with business travelers, creating fiscal havoc and economic hardship, with little relief in sight. At the same time, there has been a sharp drop in U.S. consumer confidence among the affluent, who are most likely to visit such destinations.

IMPLICATIONS FOR BUSINESS: The ability to get accurate and objective data is seriously challenged. Tourists with the resources to travel will continue to do so. International tourism is expected to increase 5 percent for 2011. But travelers will shift their migratory patterns to other, more secure emerging destinations – most notably, China, India and Brazil. It is these countries, along with the more traditional vacation destinations and resorts, which will reclaim global travelers. Opportunistic travel destinations will also leverage the industry's powerful new trends: High-tech tourism (from automated rooms to robots); sustainable (green) tourism; medical health and fitness tourism (focusing on spirituality); and the personalized, unique experiences built around adventure, culture, history and archeology that shift visitor priorities from escapism to enrichment.

WHOM CAN YOU TRUST / BELIEVE?

Time was when we all looked to experts to tell us what was good and what to avoid. No more.

Today, anyone can and everyone does, express themselves online—on YouTube, on individual blogs, on new media like *The Huffington Post*, even on blogs.aljazeera.net, serdal.com, arabist.net and much, much more.

Business and organization websites boost themselves, employing obvious hyperbole (e.g., restaurants, performers) as countries project propaganda at dozens of levels. Millions of posts appear every day. There are some services that even charge for posting positive opinions and reviews.

Opinion, not news, finds its way into even well-credentialed media outlets. An incredible amount of conflicting misinformation is projected in cyberspace. Will all this turn around? Not any time soon.

IMPLICATIONS FOR BUSINESS: The pressure to tell a company's story online in the face of an avalanche of data that either attacks that company, or crowds it out, requires new ways of thinking about how to get its message to those who count.

DID YOU KNOW?

Most income growth in the U.S. goes to the richest 1 percent of the population. In fact, half of the national income goes to the richest 1 %. The top 1 percent of Americans control 34.6% of the wealth.

THE SHUTTLE SHUTTERED, BUT NOT SPACE EXPLORATION

When the space shuttle Atlantis touched down on July 21, it completed the 135th flight and ended the 30-year program. However, while the shuttle program has ended, space exploration by the U.S. is far from over. The U.S. is moving forward with plans to rely on private companies for missions closer to Earth while NASA will focus on more distant space exploration.

NASA remains very active:

- On August 5, NASA launched Juno, which has begun a 1.7 billion-mile journey to orbit Jupiter's poles, where it will arrive in the Summer of 2016. Scientists are interested because it is believed to be the first planet formed after the sun about 4.6 billion years ago and, thus, holds clues to the origins of our solar system.

- As this was written, NASA's Gravity Recovery And Interior Laboratory (GRAIL) mission to study the moon was scheduled for a Sept. 8 launch on board a Delta II rocket. GRAIL's twin spacecraft are tasked for a nine-month mission to explore the structure of the lunar interior from crust to core and advance our understanding of the thermal evolution of the moon.

- This Summer, the U.S.'s Dawn spacecraft became the first spacecraft to orbit an object in the main asteroid belt between Jupiter and Mars as it circled Vesta, one of the two largest asteroids in the belt. In July 2012 after a year-long science mission, it will depart Vesta for another asteroid called Ceres. Ceres is so large that some consider it a dwarf planet.

- The Swift satellite recently observed a truly extraordinary event -- the awakening of a distant galaxy's dormant black hole as it shredded and consumed a star.

- After a journey of almost three years, NASA's Mars Exploration Rover Opportunity has reached the Red Planet's Endeavour crater to study rocks never seen before. The Endeavour crater, which is more than 25 times wider than the Victoria crater, is 14 miles (22 kilometers) in diameter. At Endeavour, scientists expect to see much older rocks and terrains than those examined by Opportunity during its first seven years on Mars.

Major next steps for human space travel include development of a new heavy-lift Space Launch System (SLS) rocket and Multi-Purpose Crew Vehicle that will be used use to fly human deep-space exploration missions with its larger lift capacity. The first flight could come as early as 2017.

President Obama has called for putting a human on an asteroid by 2025 and Mars by the mid-2030s. But NASA no longer is the only game in town. There is also growing activity in the private sector:

- A private spacecraft may dock with the International Space Station by the end of the year. NASA has approved a late November flight for Space Exploration Technology Corp. or SpaceX as it is known, a company founded by entrepreneur Elon Musk. The flight will use SpaceX's proprietary Falcon 9 rocket and Dragon space capsule.

- Orbital Sciences Corp. expects to conduct a similar mission to the space station in early 2012 using its Taurus II rocket and Cygnus capsule. Orbital has a contract for eight cargo flights to the station.

In addition, seven companies have been awarded contracts to provide flights to the edge of outer space, providing frequent and low-cost access to scientists, engineers and space tourists. Virgin Atlantic is already developing piloted space planes to carry humans to suborbital space for research and tourism.

IMPLICATIONS FOR BUSINESS: Space exploration is not dead. In fact, it is just beginning with a much wider range of private companies and opportunities for business investment.

DID YOU KNOW?

Of the 63 million Americans now in the age range of 20-34, 87% text message, 75% use social media and another 40% prefer to buy online.

NEWSPAPERS: IS THE END NEAR?

Newspaper publishers, as Mark Twain did, would love to state: "The reports of my death are greatly exaggerated." Over the past year, a number have even suggested they've seen signs of renewed life—or life support. The decrease in revenue is "moderating," but 2009 was the worst year in decades for newspaper advertising revenue, plummeting more than 25% from 2008, which was the worst since the Great Depression.

Print ad revenue has plunged by almost 50% from $47 billion to $24 billion in recent years. Advertisers are no longer going to newspapers first, second or third as much as to online marketing, social media, eNewsletters, direct mail, their own websites and especially television.

Even though insiders believe that in a permanently downsized industry a true recovery is highly unlikely, most newspaper publishers are looking to technology for a solution. One response to the hemorrhaging has been for news organizations to stop giving away content free and charge readers for the privilege of reading their stories. *The New York Times* recently adopted that strategy.

Others are turning to Kindle and iPad, for which *The Wall Street Journal* charges $17.99 a month per subscription. Some believe tablet technology could save the media, and a Time Inc. consortium has begun moving toward use of such a device for magazine content.

The use of mobile devices and smartphones to obtain news is expected to grow to tens of millions in the near future. In fact, over the past year, several million consumers downloaded an "app" to receive news from the *Associated Press.* Last year, web consumption of news exceeded that of print. And, within a year or so, mobile devices are expected to be more popular than laptops and desk computers for viewing news. While "readership" has increased with various new gadgets, newspaper circulation is expected to continue its long decline.

More Local Websites

Another evolutionary step in the progression to "who knows where" is the emergence of hyper-local websites, which often offer nothing more than press releases pretending to be news and "pay-to-play" stories that organizations pay to have written about themselves. None of this, of course, bears any resemblance to authentic. Older readers are also coming to the conclusion that the seemingly infinite amount of information is not the real thing since it is very often misinformation and opinion that masquerades as news in the blogosphere and on social media.

The mortality rate on daily newspapers has proved sobering in an industry that goes back to colonial times. Nevertheless, weekly papers with a strong emphasis on local news are persevering and even prospering. Many have been successful with the controlled circulation model while medium-sized dailies that tried to consolidate news-gathering operations and "regionalize" have confronted major challenges.

Readers want local news. But producing local news can be costly and few companies are willing to return to the large news staffs that prevailed before online aggregators such as Yahoo! started to erode readership of America's 1,400 dailies. Staff cuts on these dailies have ranged anywhere from 25-to-50%.

Data shows that 42% of Americans said they wouldn't miss their newspaper much, or at all, if the print or online versions ended. Almost half of those responders were 39 and younger. More than 25% said losing their local newspapers would not hurt civic life in their cities and towns, and almost 30% were sure they could find other ways to get their news if the papers shut down.

IMPLICATIONS FOR BUSINESS: Because increasing numbers of advertisers will continue to turn away from print editions of newspapers, the industry will further contract. While sources of information will proliferate, the news quality will inevitably decline. The newspaper industry largely gave news away gratis online and will never be able to put the horse back in the barn by charging readers for content. Serious in-depth reporting on issues of importance to democracy may become a lost tradition for much of American journalism.

ONLINE: THE NEW WORLD OF BOOK PUBLISHING

When the Internet was new and still called "the information superhighway," euphoric web gurus repeatedly declared that digital media would be a leveling force in American society—a dose of people power that would transform communication, commerce and politics with a click of the mouse. In many ways, that vision is being realized.

For better or worse, Twitter and the blogosphere have democratized journalism. Sites like Ebay and Etsy have provided small vendors and craftsmen with an international platform for their wares. Online fundraising and outreach have also empowered a new generation of politicians, many of whom—including the current President—may not have found a voice in party politics a decade ago.

In book publishing, especially, the digital revolution appears to be ushering in a new era of consolidation. A decade ago, industry observers were mourning the demise of independent booksellers as Barnes & Noble and Borders built new superstores around the country. Independents that survived the competition—often, by redoubling their efforts to serve local interests and to provide new curatorial services for their customers—became the subjects of feel-good stories in local newspapers, and even a Hollywood film romance ("You've Got Mail" with Tom Hanks and Meg Ryan, 1998). They were fighting the good fight against corporate domination.

Today, only a few stalwarts continue to hold out. In 2001, the American Booksellers Association had about 3,200 member stores. The membership has now declined to about 1,700. Yet, the fight has changed dramatically since the early 2000s. Barnes & Noble may operate 705 stores nationwide, but big box stores are no longer leading the competition. Borders, which operated 1,249 stores just eight years ago, has now gone the way of most indies; fewer than 400 Borders stores remain. All will be closed by September.

The new book publishing competition, and the leading antagonists of independents and chain stores alike, are Amazon, Apple and Google.

Amazon
Over the past 12 months, Amazon has continued to find new and ingenious ways to insinuate itself into all aspects of book commerce. It launched Kindle Textbook Rental, through which "tens of thousands" of textbooks will be available in e-reader format for the new school year. It announced a lending arrangement with more than 11,000 public libraries, through which approximately five million Kindle users will be able to "borrow" library holdings over their Wi-Fi connections. Perhaps most relevantly, it launched Amazon Publishing, a general-interest imprint headed by former Time-Warner Book Group CEO Larry Kirshbaum. The selection of Kirshbaum suggests that Jeff Bezos and the Amazon leadership intend to become serious players in the production of literary content. And, as future competitors are well aware, Amazon Publishing will have singular access to "the world's largest store"—Amazon.com.

Apple
With iPad and iPhone, the leading tablet computer and smartphone on the market, Apple is also a growing force in the publishing industry. Both devices are more versatile than Kindle-style readers, and both fuel growing markets for e-books. In addition, the apps format has emerged as a natural venue for travel, reference, lifestyle and children's content as well as cookbooks. Apps accounted for less than $630,000 in total profit in 2010, but 2011 totals are expected to be significantly greater.

Google
For several years, Google Books has been the epicenter of an international copyright controversy that may determine the future of free online content. It has also engaged in a wildly successful exercise in "the democratization of knowledge." Having digitized over 15 million books since 2004, largely drawing content from the public domain, Google has announced its intention to scan all of the estimated 130 million existing books by the end of the decade.

It has also launched the firm's own e-store, Google eBooks, to compete with Amazon.com and other book-sellers. While its retail selection is comparatively small, eBook's selection of free books is, of course, the largest in the world and a major platform for future growth. And with the introduction of the iRiver Story HD, the first e-reader integrated with eBooks, Google has now entered the reading device business as well—albeit indirectly, by providing the Korean manufacturer, iRiver, with free eBooks software. Silicon Valley may not have a strangle hold on publishing yet, but its grip is tightening.

E-volution

Between 2008 and 2010, e-book sales increased a robust 1,274% to $878 million, which represented 6.4 percent of trade revenue. This was a significant change to be sure, but 2011 is turning into the real watershed year for digital publishing. The early numbers are startling.

Since April, Amazon.com has sold more e-books than all of its print categories combined. At the same time, total sales of all print books dropped 10% in the first half of the year, and sales of adult fiction—the most popular category of e-books by a wide margin—declined by more than a quarter.

If current trends persist, the future of brick and mortar retail stores rests not with the remaining independents, or with Barnes & Noble as the chain of last resort, but with the mass merchandisers like Walmart, Target, Costco, etc. Literary types may scoff at their miniscule selections, but these outlets are posting enormous gains, including a 553% jump in book sale revenue between 2008 and 2010.

IMPLICATIONS FOR BUSINESS: The new media, it appears, have made it possible for just about everyone to be an author. But every author, if he (or she) hopes to earn at least a few dollars from their labors, operates within an industry that is increasingly dominated by a handful of major players. Even the mightiest publishers are scrambling to make sense of these new realities. E-book sales, based on Amazon's standard price of $9.99 per book, are not making up for the decline in print book sales. Publishing houses have declared small profits in the first half of 2011, but credit greater efficiencies in production and higher operating margins rather than any successes in the marketplace. Thanks to the digital revolution in publishing, big box bookstores, independent bookstores and the major publishing houses are all asking the same question now. When, and how, will the profits return?

DID YOU KNOW?

The average tenure of American CEOs dropped from 8.1 years to 6.3 years during the past decade.

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*“There’s nothing that cleanses your soul
like getting the hell kicked out of you.”*

-Woody Hayes

APPENDIX:

CURRENT FORECASTS IN KEY ECONOMIC AREAS

This report is dedicated to the memory of our late, beloved colleague, Jim Wieghart (1933-2010).

Jim was an invaluable member of our Firm from the time of the first Trend Report, a man of strong principles and strong opinions who never hesitated to speak his mind, just as he never hesitated to extend the hand of friendship to all he met. Those of us who had the privilege of knowing and working with him will always hold him in our memories.

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