

French Roast

In May, the voters of France rejected the adoption of a constitution that would have solidified a European Union. In so doing, the French rendered a resounding vote for socialism, which is a euphemism for governments that shore up their power base by promising things that they cannot pay for. In essence, the French labor unions wanted guaranteed jobs and wages for their members and the French farmers wanted guaranteed prices for their products. Suffice it to say that the French will not tolerate grounds in their coffee!

A European Union originally was conceived to move away from this sort of provincial thinking. The objective was for Europe to become more competitive in world trade by harnessing its strengths (e.g., cheap skilled labor in Eastern Europe; sophisticated capital markets and innovative technology in Western Europe) while gradually removing power from individual governments that have fostered an uncompetitive work ethic among their people via the use of entitlements, e.g., free health care, generous retirement pensions, agricultural subsidies, etc.

What really killed the European Union were the demographics of Europe's aging baby boomer generation. There simply were too many people who stood to lose from the intended reforms, not unlike what we shall soon discover to be true on our own shores.

The socialist experiment among advanced societies is going to be a costly one, for it ultimately is market forces and not political majorities that dictate the direction and pace of change. The fact is that China and India are demonstrating that the world is changing in ways that most people cannot and do not wish to fathom. Thus we can anticipate a titanic clash between market forces and large blocs of voters demanding outcomes that best serve their self-interests.

The French have given us a sneak preview of what will happen throughout North America, Japan and Western Europe as the retiring baby boomers swamp the available means to pay promised retirement benefits. Societies will have to deal with this reality and either embrace serious reform or suffer the wrath of younger taxpaying generations that will be stuck with the bill.

My personal opinion is that the concept of retirement is a scourge on educated and productive individuals. Unless one is able to accumulate sufficient savings, retirement should not be an option. It certainly is not a God-given right as I can find no reference to "retirement" in the Bible. In fact, I can find no historical references to "retirement" until after the Social Security Act of 1935 was signed into law by President Roosevelt. That means the concept of retirement is only 70 years old which in the annals of modern history qualifies it as a laboratory experiment.

For now, the handwriting on the wall is *en francais*, but soon it will be available in English, Japanese and a stewpot of other European languages. As investors and members of a society that is heavily skewed toward an aging population, Americans have to anticipate radical changes to the assumptions that underlie conventional thinking and increasingly look outside the box for investment trends, lifestyle adjustments and personal opportunities that likely will flow from these changes.

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