



A GENERATIONAL COLD WAR

For better or worse, the events of the past year have brought government and politics to the forefront of our collective consciousness. I think there's always been a subset of people who are really passionate about and clued-in to the on-going dialogues of political debate but this is the first time in a while where there has been mass interest in the subject. And when you look underneath the hood of the American political system, the first thing you notice is that what's going-on is kind of crazy. The dialogue is confusing and inconsistent and the debates are increasingly either cultural or identity-based. It feels basically like reality television.

I have been spending a lot of time trying to understand why our political dialogue has manifested in this seemingly crazy way. With the help of a few charts and statistics, I would like to present to you all a serious idea on just why things may have devolved this way. First, here's my theory:

The reason that things have gotten crazy is that we are in the midst of a very serious, unspoken generational cold war. This war is about whether the government is going to focus on the needs of the younger generations (Gen X, the Millennials, Gen Z) or continue to support the promises made to the older generations (the Boomers).

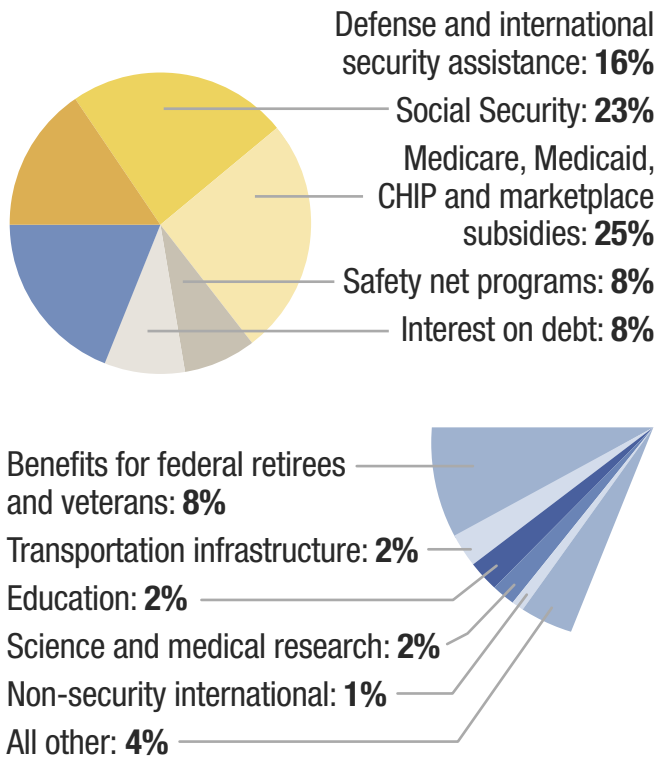
I call it a cold war because the stakes are so high for both sides that our politicians cannot openly debate the issue. Remember this whole idea that Social Security is the third rail of American politics, something you literally cannot even

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talk about if you want to get elected. This is a manifestation of the cold war. As a society, we've just made so many promises to the older generations and now the bill is coming due and there's not enough money to go around. Our politicians are facing impossible choices (especially if they want to keep getting reelected). As a result of our collective unwillingness to address issues head-on, hot spots of conflict have emerged in other, less existentially consequential areas of American life. It started with the Culture Wars of the 1990's, found some relief in our collective concern with the Global War on Terror and then evolved into the Identity Politics of the Trump era.

Ok, so that's the idea. Let's look at some charts and data that support the theory. The main driver of budgetary constraint across almost every area of government are pension liabilities. These costs are quite literally preventing the government from offering adequate services, let alone a safety net. At the Federal level, we are spending almost 25% of our budget on Social Security, 50% if you include Medicare:

Most of budget goes toward Defense, Social Security and Major Health Programs



Note: Does not add to 100% due to rounding Source: 2019 figures from Office of Management and budget, FY 2021 Historical Tables

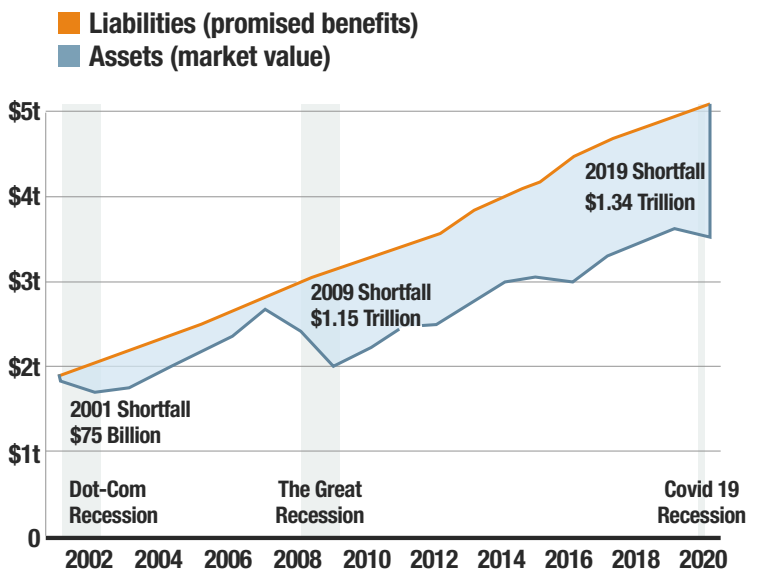
And those are just the numbers today. As more and more Boomers reach retirement age, this expense is forecasted to grow at an incredible pace. A budget study done during early years of the Obama administration estimated that these programs, if unaltered, will eventually cost us over \$45T.

I found something similar in education as well. For example, in the LAUSD system here in Los Angeles, pension expenses already account for 9% of its \$7.5B annual budget. This is forecasted to grow to 22% by 2030. What's happening here is that pension expenses are crowding out the potential to make improvements in the here and now (e.g. hiring more teachers, paying higher current salaries). Our schools are suffering because they don't have the budget room to keep pace.

I found the same dynamic in the City of Los Angeles where 13% of its \$9.3B budget was spent on pensions in 2018. And this is growing at the same kind of rate as with LAUSD. This budget includes essential government services like the police, a topic at the forefront of the political debates of 2020. Look, it's hard to find room to make improvements in police spending when such a big percentage of the budget is already spoken for.

Here's the real scary part: this is going to get much, much worse. Another problem with these pensions is that they are all underfunded, meaning their expected liabilities over time are greater than their assets. As an example, let's look at the State pension plans:

Total Unfunded Liabilities for Statewide Pensions Plans



Equable Institute analysis of public plan valuation reports and CAFRs published as of November 2020. The headline shown is based on fair market value of assets for each year; using the "actuarial" value of assets would show a similar trend, though with a smoother curve over the two decades

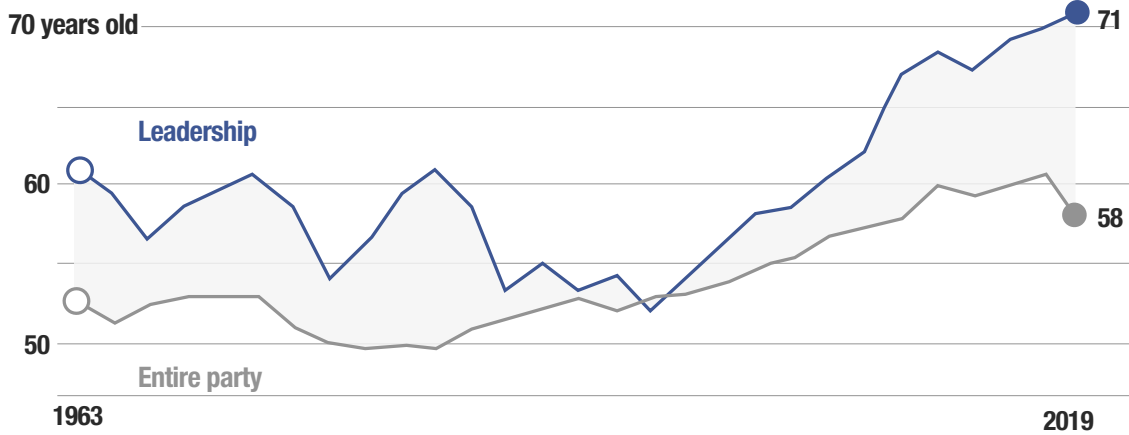
You'll find the same dynamic in almost every public pension plan in the world. By the way, this is one of the main reasons why the central bankers opted to pursue quantitative easing in the aftermath of the Great Financial Crisis. The system cannot afford for asset prices to fall! It would only make this gap even larger.

There's just not enough money to go around. This is the real issue of American politics. Are we going to honor these

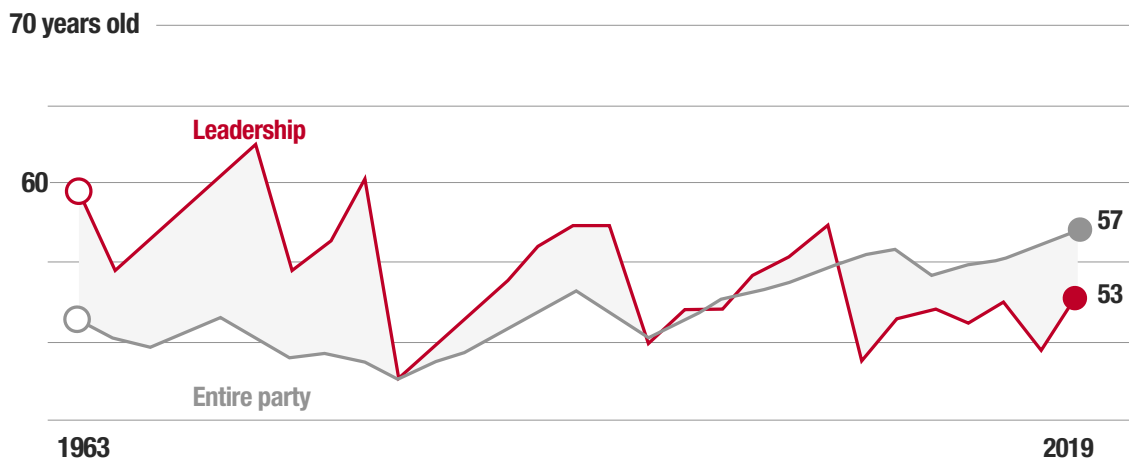
promises made to the older generations? Can we? If we do, what does that mean for the younger generations? Are we just going to have suffer with underfunded schools and strapped city services budgets?

I'll leave you with this: if there's any doubt who's been winning this cold war, consider for a second this past Presidential election where both candidates were well into their 70s. In Congress, you find the same dynamic:

Average age of House Democrats

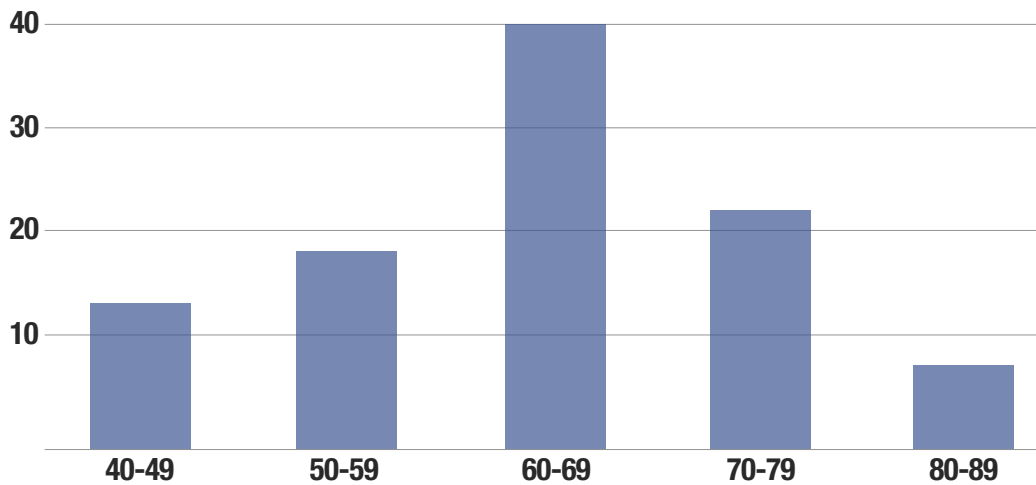


Republicans



Leadership includes Speaker of the House, majority leader, minority leader and whips and caucus conference chairmen.

U.S. Senators by age



CEO age at hire

Average age at hire for Fortune 500 and S&P 500 CEOs

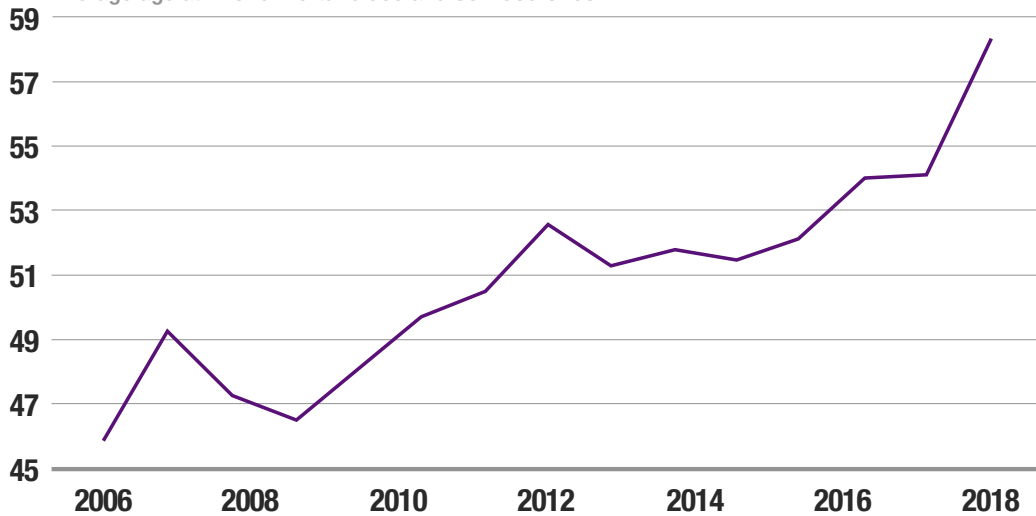


Chart: Andy Kiersz/Business Insider Source: Crist Kolder Associates

You find the same dynamic in Corporate America as well. The older generations are firmly in control.

What does this mean? Well, for one thing, it's highly unlikely we're going to see any progress. We'll just keep kicking the can down the road. The generational cold war will continue. □

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