

WHAT IN THE WORLD IS GOING ON?

By HERBERT MEYER

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Meyer was also the first man in the United States Government to predict the collapse of the Soviet Union, for which he later was awarded the National Intelligence Distinguished Service Medal, one of the intelligence community's high honors.

FOUR MAJOR TRANSFORMATIONS

Currently, there are four major transformations that are shaping political, economic and world events. These transformations have profound implications for American business leaders and owners, our culture and on our way of life.

1. The War in Iraq

There are three major monotheistic religions in the world: Christianity, Judaism and Islam.

In the 16th century, Judaism and Christianity reconciled with the modern world. The rabbis, priests and scholars found a way to settle up and pave the way forward. Religion remained at the center of life, church and state became separate. Rule of law, the idea of economic liberty, individual rights, human rights - all these are defining points of modern Western civilization. These concepts started with the Greeks but didn't take off until the 15th and 16th century when Judaism and Christianity found a way to reconcile with the modern world. When that happened, it unleashed the scientific revolution and the greatest outpouring of art, literature and music the world has ever known.

Islam, which developed in the 7th century, counts millions of Moslems around the world who are normal people. However, there is a radical streak within Islam. When the radicals are in charge, Islam attacks Western civilization.

Islam first attacked Western civilization in the 7th century, and later in the 16th and 17th centuries. By 1683, the Moslems (Turks from the Ottoman Empire) were literally at the gates of Vienna. It was in Vienna that the climatic battle between Islam and Western civilization took place. The West won and went forward. Islam lost and went backward.

Interestingly, the date of that battle was September 11. Since then, Islam has not found a way to reconcile with the modern world.

Today, terrorism is the third attack on Western civilization by radical Islam. To deal with terrorism, the U.S. is doing two things. First, units of our armed forces are in 30 countries around the world hunting down terrorist groups and dealing with them. This gets very little publicity. Second we are taking military action in Afghanistan and Iraq.

These actions are covered relentlessly by the media. People can argue about whether the war in Iraq is right or wrong. However, the underlying strategy behind the war is to use our military to remove the radicals from power and give the moderates a chance. Our hope is that, over time, the moderates will find a way to bring Islam forward into the 21st century. That's what our involvement in Iraq and Afghanistan is all about.

The lesson of 9/11 is that we live in a world where a small number of people can kill a large number of people very quickly. They can use airplanes, bombs, anthrax, chemical weapons or dirty bombs. Even with a first-rate intelligence service (which the U.S. does not have), you can't stop every attack. That means our tolerance for political horseplay has dropped to zero. No longer will we play games with terrorists or weapons of mass destructions.

Most of the instability and horseplay is coming from the Middle East.

That's why we have thought that if we could knock out the radicals and give the moderates a chance to hold power; they might find a way to reconcile Islam with the modern world. So when looking at Afghanistan or Iraq, it's important to look for any signs that they are modernizing.

For example: women being brought into the work force and colleges in Afghanistan is good. The Iraqis stumbling toward a constitution is good.

People can argue about what the U.S. is doing and how we're doing it, but anything that suggests Islam is finding its way forward is good.

2. The Emergence of China

In the last 20 years, China has moved 250 million people from the farms and villages into the cities. Their plan is to move another 300 million in the next 20 years. When you put that many people into the cities, you have to find work for them. That's why China is addicted to manufacturing; they have to put all the relocated people to work. When we decide to manufacture something in the U.S., it's based on market needs and the opportunity to make a profit. In China, they make the decision because they want the jobs, which is a very different calculation.

While China is addicted to manufacturing, Americans are addicted to low prices. As a result, a unique kind of economic codependency has developed between the two countries. If we ever stop buying from China, they will explode politically. If China stops selling to us, our economy will take a huge hit because prices will jump. We are subsidizing their economic development; they are subsidizing our economic growth.

Because of their huge growth in manufacturing, China is hungry for raw materials, which drives prices up worldwide. China is also thirsty for oil, which is one reason oil is now at \$100 a barrel. By 2020, China will produce more cars than the U.S. China is also buying its way into the oil infrastructure around the world. They are doing it in the open market and paying fair market prices, but millions of barrels of oil that would have gone to the U.S. are now going to China. China's quest to assure it has the oil it needs to fuel its economy is a major factor in world politics and economics.

We have our Navy fleets protecting the sea lines, specifically the ability to get the tankers through. It won't be long before the Chinese have an aircraft carrier sitting in the Persian Gulf as well. The question is, will their aircraft carrier be pointing in the same direction as ours or against us?

3. Shifting Demographics of Western Civilization

Most countries in the Western world have stopped breeding. For a civilization obsessed with sex, this is remarkable. Maintaining a steady population requires a birth rate of 2.1. In Western Europe, the birth rate

currently stands at 1.5, or 30 percent below replacement. In 30 years there will be 70 to 80 million fewer Europeans than there are today. The current birth rate in Germany is 1.3. Italy and Spain are even lower at 1.2. At that rate, the working age population declines by 30 percent in 20 years, which has a huge impact on the economy. When you don't have young workers to replace the older ones, you have to import them.

The European countries are currently importing Moslems. Today, the Moslems comprise 10 percent of France and Germany, and the percentage is rising rapidly because they have higher birthrates. However, the Moslem populations are not being integrated into the cultures of their host countries, which is a political catastrophe. One reason Germany and France don't support the Iraq war is they fear their Moslem populations will explode on them. By 2020, more than half of all births in the Netherlands will be non-European.

The huge design flaw in the postmodern secular state is that you need a traditional religious society birth rate to sustain it. The Europeans simply don't wish to have children, so they are dying. In Japan, the birthrate is 1.3. As a result, Japan will lose up to 60 million people over the next 30 years. Because Japan has a very different society than Europe, they refuse to import workers. Instead, they are just shutting down. Japan has already closed 2,000 schools, and is closing them down at the rate of 300 per year. Japan is also aging very rapidly. By 2020, one out of every five Japanese will be at least 70 years old. Nobody has any idea about how to run an economy with those demographics.

Europe and Japan, which comprise two of the world's major economic engines, aren't merely in recession, they're shutting down. This will have a huge impact on the world economy, and it is already beginning to happen. Why are the birthrates so low? There is a direct correlation between abandonment of traditional religious society and a drop in birth rate, and Christianity in Europe is becoming irrelevant.

The second reason is economic. When the birth rate drops below replacement, the population ages. With fewer working people to support more retired people, it puts a crushing tax burden on the smaller group of working age people. As a result, young people delay marriage and having a family. Once this trend starts, the downward spiral only gets worse. These countries have abandoned all the traditions they formerly held in regard to having families and raising children.

The U.S. birth rate is 2.0, just below replacement. We have an increase in population because of immigration. When broken down by ethnicity, the Anglo birth rate is 1.6 (same as France) while the Hispanic birth rate is 2.7. In the U.S., the baby boomers are starting to retire in massive numbers. This will push the elder dependency ratio from 19 to 38 over the next 10 to 15 years. This is not as bad as Europe, but still represents the same kind of trend.

Western civilization seems to have forgotten what every primitive society understands - you need kids to have a healthy society. Children are huge consumers. Then they grow up to become taxpayers. That's how a society works, but the postmodern secular state seems to have forgotten that. If U.S. birth rates of the past 20 to 30 years had been the same as post-World War II, there would be no Social Security or Medicare problems.

The world's most effective birth control device is money. As society creates a middle class and women move into the workforce, birth rates drop. Having large families is incompatible with middle class living.

The quickest way to drop the birth rate is through rapid economic development. After World War II, the U.S. instituted a \$600 tax credit per child. The idea was to enable mom and dad to have four children without being troubled by taxes. This led to a baby boom of 22 million kids, which was a huge consumer market. That turned into a huge tax base. However, to match that incentive in today's dollars would cost \$12,000 per child.

China and India do not have declining populations. However, in both countries, there is a preference for boys over girls, and we now have the technology to know which is which before they are born. In China and India, families are aborting the girls. As a result, in each of these countries there are 70 million boys growing up who will never find wives. When left alone, nature produces 103 boys for every 100 girls. In some provinces, however, the ratio is 128 boys to every 100 girls.

The birth rate in Russia is so low that by 2050 their population will be smaller than that of Yemen. Russia has one-sixth of the earth's land surface and much of its oil. You can't control that much area with such a small population. Immediately to the south, you have China with 70 million unmarried men who are a real potential nightmare scenario for Russia.

4. Restructuring of American Business

The fourth major transformation involves a fundamental restructuring of American business. Today's business environment is very complex and competitive. To succeed, you have to be the best, which means having the highest quality and lowest cost. Whatever your price point, you must have the best quality and lowest price. To be the best, you have to concentrate on one thing. You can't be all things to all people and be the best.

A generation ago, IBM used to make every part of their computer. Now Intel makes the chips, Microsoft makes the software, and someone else makes the modems, hard drives, monitors, etc. IBM even out-sources their call center. Because IBM has all these companies supplying goods and services cheaper and better than they could do it themselves, they can make a better computer at a lower cost. This is called a fracturing of business. When one company can make a better product by relying on others to perform functions the business it used to do itself, it creates a complex pyramid of companies that serve and support each other.

This fracturing of American business is now in its second generation.

The companies who supply IBM are now doing the same thing - outsourcing many of their core services and production process. As a result, they can make cheaper, better products. Over time, this pyramid continues to get bigger and bigger. Just when you think it can't fracture again, it does.

Even very small businesses can have a large pyramid of corporate entities that perform many of its important functions. One aspect of this trend is that companies end up with fewer employees and more independent contractors. This trend has also created two new words in business, integrator and complementor. At the top of the pyramid, IBM is the integrator. As you go down the pyramid, Microsoft, Intel and the other companies that support IBM are the complementors. However, each of the complementors is itself an integrator for the complementors underneath it.

This has several implications, the first of which is that we are now getting false readings on the economy. People who used to be employees are now independent contractors launching their own businesses. There are many people working whose work is not listed as a job. As a result, the economy is perking along better than the numbers are telling us.

Outsourcing also confused the numbers. Suppose a company like General Motors

decides to outsource all its employee cafeteria functions to Marriott (which it did). It lays-off hundreds of cafeteria workers, who then get hired right back by Marriott. The only thing that has changed is that these people work for Marriott rather than GM. Yet, the media headlines will scream that America has lost more manufacturing jobs.

All that really happened is that these workers are now reclassified as service workers. So the old way of counting jobs contributes to false economic readings. As yet, we haven't figured out how to make the numbers catch up with the changing realities of the business world.

Another implication of this massive restructuring is that because companies are getting rid of units and people that used to work for them, the entity is smaller. As the companies get smaller and more efficient, revenues are going down but profits are going up. As a result, the old notion that revenues are up and we're doing great isn't always the case anymore. Companies are getting smaller but are becoming more efficient and profitable in the process.

IMPLICATIONS OF THE FOUR TRANSFORMATIONS

1. The War in Iraq

In some ways, the war is going very well. Afghanistan and Iraq have the beginnings of a modern government, which is a huge step forward. The Saudis are starting to talk about some good things, while Egypt and Lebanon are beginning to move in a good direction. A series of revolutions have taken place in countries like Ukraine and Georgia.

There will be more of these revolutions for an interesting reason. In every revolution, there comes a point where the dictator turns to the general and says, "Fire into the crowd". If the general fires into the crowd, it stops the revolution. If the general says "No", the revolution continues. Increasingly, the generals are saying "No" because their kids are in the crowd.

Thanks to TV and the Internet, the average 18-year old outside the U.S. is very savvy about what is going on in the world, especially in terms of popular culture. There is a huge global consciousness, and young people around the world want to be a part of it. It is increasingly apparent to

them that the miserable government where they live is the only thing standing in their way. More and more, it is the well-educated kids, the children of the generals and the elite, who are leading the revolutions.

At the same time, not all is well with the war. The level of violence in Iraq is much worse and doesn't appear to be improving. It's possible that we're asking too much of Islam all at one time. We're trying to jolt them from the 7th century to the 21st century all at once, which may be further than they can go. They might make it and they might not. Nobody knows for sure. The point is, we don't know how the war will turn out. Anyone who says they know is just guessing.

The real place to watch is Iran. If they actually obtain nuclear weapons it will be a terrible situation. There are two ways to deal with it. The first is a military strike, which will be very difficult. The Iranians have dispersed their nuclear development facilities and put them underground. The U.S. has nuclear weapons that can go under the earth and take out those facilities, but we don't want to do that.

The other way is to separate the radical mullahs from the government, which is the most likely course of action. Seventy percent of the Iranian population is under 30. They are Moslem but not Arab. They are mostly pro-Western. Many experts think the U.S. should have dealt with Iran before going to war with Iraq. The problem isn't so much the weapons, it's the people who control them. If Iran has a moderate government, the weapons become less of a concern.

We don't know if we will win the war in Iraq. We could lose or win. What we're looking for is any indicator that Islam is moving into the 21st century and stabilizing.

2. China

It may be that pushing 500 million people from farms and villages into cities is too much too soon. Although it gets almost no publicity, China is experiencing hundreds of demonstrations around the country, which is unprecedented. These are not students in Tiananmen Square. These are average citizens who are angry with the government for building chemical plants and polluting the water they drink and the air they breathe.

The Chinese are a smart and industrious people. They may be able to pull it

off and become a very successful economic and military superpower. If so, we will have to learn to live with it. If they want to share the responsibility of keeping the world's oil lanes open, that's a good thing. They currently have eight new nuclear electric power generators under way and 45 on the books to build. Soon, they will leave the U.S. way behind in their ability to generate nuclear power.

What can go wrong with Chi na? For one, you can't move 550 million people into the cities without major problems. Two, China really wants Taiwan, not so much for economic reasons, they just want it. The Chinese know that their system of communism can't survive much longer in the 21st century. The last thing they want to do before they morph into some sort of more capitalistic government is to take over Taiwan.

We may wake up one morning and find they have launched an attack on Taiwan. If so, it will be a mess, both economically and militarily. The U.S. has committed to the military defense of Taiwan. If China attacks Taiwan, will we really go to war against them? If the Chinese generals believe the answer is no, they may attack. If we don't defend Taiwan, every treaty the U.S. has will be worthless. Hopefully, China won't do anything stupid.

3. Demographics.

Europe and Japan are dying because their populations are aging and shrinking. These trends can be reversed if the young people start breeding. However, the birth rates in these areas are so low it will take two generations to turn things around. No economic model exists that permits 50 years to turn things around. Some countries are beginning to offer incentives for people to have bigger families. For example, Italy is offering tax breaks for having children. However, it's a lifestyle issue versus a tiny amount of money. Europeans aren't willing to give up their comfortable lifestyles in order to have more children.

In general, everyone in Europe just wants it to last a while longer.

Europeans have a real talent for living. They don't want to work very hard. The average European worker gets 400 more hours of vacation time per year than Americans. They don't want to work and they don't want to make any of the changes needed to revive their economies.

The summer after 9/11, France lost 15,000 people in a heat wave. In August, the country basically shuts down when everyone goes on vacation.

That year, a severe heat wave struck and 15,000 elderly people living in nursing homes and hospitals died. Their children didn't even leave the beaches to come back and take care of the bodies. Institutions had to scramble to find enough refrigeration units to hold the bodies until people came to claim them. This loss of life was five times bigger than 9/11 in America, yet it didn't trigger any change in French society.

When birth rates are so low, it creates a tremendous tax burden on the young. Under those circumstances, keeping mom and dad alive is not an attractive option. That's why euthanasia is becoming so popular in most European countries. The only country that doesn't permit (and even encourage) euthanasia is Germany, because of all the baggage from World War II.

The European economy is beginning to fracture. Countries like Italy are starting to talk about pulling out of the European Union because it is killing them. When things get bad economically in Europe, they tend to get very nasty politically. The canary in the mine is anti-Semitism.

When it goes up, it means trouble is coming. Current levels of anti-Semitism are higher than ever.

Germany won't launch another war, but Europe will likely get shabbier, more dangerous and less pleasant to live in. Japan has a birth rate of 1.3 and has no intention of bringing in immigrants. By 2020, one out of every five Japanese will be 70 years old. Property values in Japan have dropped every year for the past 14 years. The country is simply shutting down.

In the U.S. we also have an aging population. Boomers are starting to retire at a massive rate. These retirements will have several major impacts:

Possible massive sell off of large four-bedroom houses and a movement to condos.

An enormous drain on the treasury. Boomers vote, and they want their benefits, even if it means putting a crushing tax burden on their kids to get them. Social Security will be a huge problem. As this generation ages ,

it will start to drain the system. We are the only country in the world where there are no age limits on medical procedures.

An enormous drain on the health care system. This will also increase the tax burden on the young, which will cause them to delay marriage and having families, which will drive down the birth rate even further.

Although scary, these demographics also present enormous opportunities for products and services tailored to aging populations. There will be tremendous demand for caring for older people, especially those who don't need nursing homes but need some level of care. Some people will have a business where they take care of three or four people in their homes. The demand for that type of service and for products to physically care for aging people will be huge.

Make sure the demographics of your business are attuned to where the action is. For example, you don't want to be a baby food company in Europe or Japan. Demographics are much underrated as an indicator of where the opportunities are. Businesses need customers. Go where the customers are.

4. Restructuring of American Business

The restructuring of American business means we are coming to the end of the age of the employer and employee. With all this fracturing of businesses into different and smaller units, employers can't guarantee jobs anymore because they don't know what their companies will look like next year. Everyone is on their way to becoming an independent contractor.

The new workforce contract will be: Show up at my office five days a week and do what I want you to do, but you handle your own insurance, benefits, health care and everything else. Husbands and wives are becoming economic units. They take different jobs and work different shifts depending on where they are in their careers and families. They make tradeoffs to put together a compensation package to take care of the family.

This used to happen only with highly educated professionals with high incomes. Now it is happening at the level of the factory floor worker.

Couples at all levels are designing their compensation packages based on their individual needs. The only way this can work is if everything is portable and flexible, which requires a huge shift in the American economy.

The U.S is in the process of building the world's first 21st century model economy. The only other countries doing this are U.K. and Australia. The model is fast, flexible, highly productive and unstable in that it is always fracturing and re-f racturing. This will increase the economic gap between the U.S. and everybody else, especially Europe and Japan.

At the same time, the military gap is increasing. Other than China, we are the only country that is continuing to put money into their military. Plus, we are the only military getting on-the-ground military experience through our war in Iraq. We know which high-tech weapons are working and which ones aren't. There is almost no one who can take us on economically or militarily.

There has never been a superpower in this position before. On the one hand, this makes the U.S. a magnet for bright and ambitious people. It also makes us a target. We are becoming one of the last holdouts of the traditional Judeo-Christian culture. There is no better place in the world to be in business and raise children. The U.S. is by far the best place to have an idea, form a business and put it into the marketplace.

We take it for granted, but it isn't as available in other countries of the world. Ultimately, it's an issue of culture. The only people who can hurt us are ourselves, by losing our culture. If we give up our Judeo-Christian culture, we become just like the Europeans.

The culture war is the whole ballgame. If we lose it, there isn't another America to pull us out.