

# Three Big Things

*The Most Important Forces Shaping the World*

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An irony of studying history is that we often know exactly how a story ends, but have no idea where it began.

Here's an example. What caused the financial crisis?

Well, you have to understand the mortgage market.

What shaped the mortgage market? Well, you have to understand the 30-year decline in interest rates that preceded it.

What caused falling interest rates? Well, you have to understand the inflation of the 1970s.

What caused that inflation? Well, you have to understand the monetary system of the 1970s and the hangover effects from the Vietnam War. What caused the Vietnam War? Well, you have to understand the West's fear of communism after World War II ...

And so on endlessly.

Every current event -- big or small -- has parents, grandparents, great grandparents, siblings, and cousins. Ignoring that family tree can muddy your understanding of events, giving a false impression of why things happened, how long they might last, and under what circumstances they might happen again. Viewing events in isolation, without an appreciation for their long roots, helps explain everything from why forecasting is hard to why politics is nasty.

Those roots can snake back infinitely. But the deeper you dig, the closer you get to the Big Things: the handful of events that are so powerful they influence a range of seemingly unrelated topics.

The ultimate of those great-grandmother events was World War II.

It's hard to overstate how much the world reset from 1939 to 1945, and how deeply the changes the war left behind went on to define virtually everything that's happened since.

Penicillin [owes its existence](#) to the war. So do radar, jets, nuclear energy, rockets, and helicopters. Subsidizing consumption with consumer credit and tax-deductible interest were deliberate policies meant to keep the economy afloat after war-time production ended. The highways you drove on this morning [were built to evacuate cities and mobilize the military](#) in case of a nuclear bomb attack during the Cold War, and the Cold War was a WW2 derivative. Same [for the internet](#).

The Civil Rights movement -- perhaps the most important social and political event of our time -- [began in earnest](#) with racial integration during the war.

The female laborforce grew by 6.5 million during the war because women were needed in factories. Most kept working after the war ended, beginning a trend that led to a doubling of the female laborforce participation rate by 1990. It's probably the single most important economic event of our lifetime.

Find something that's important to you in 2019 -- social, political, economic, whatever -- and with a little effort you can trace the roots of its importance back to World War II. There are so few exceptions to this rule it's astounding.

But it's not just astounding. It's an example of something easy to overlook: If you don't spend a little time understanding World War II's causes and outcomes, you're going to have a hard time understanding why the last 60 years have played out the way they have.

You'll struggle to understand how the biggest technologies got off the ground, and how the most important innovations [are born from](#) panic-induced necessity more than cozy visions.

Or why household debt [has risen the way it has](#).

Or why Europeans have different views on social safety nets than Americans. John Maynard Keynes predicted countries wrecked by war would go on to have a "craving for social and personal security," and indeed they did. Historian Tony Judt writes of post-war Europe:

Only the state could offer hope or salvation to the mass of the population. And in the aftermath of depression, occupation and civil war, the state—as an agent of welfare, security and fairness—was a vital source of community and social cohesion.

There are so many things happening today that aren't easy to grasp without a working knowledge of the 75-year-old wartime forces that got them going in the first place. To me, the war is fascinating to study not because of what happened, but what it went on to influence.

Which raises the question: What else is like World War II?

What are the other Big Things -- the great-grandparents -- of important topics today that we need to study if we want to understand what's happening in the world?

Nothing is as influential as World War II has been. But there are a few other Big Things worth paying attention to, because they're the root influencer of so many other topics.

The three big ones that stick out are demographics, inequality, and access to information.

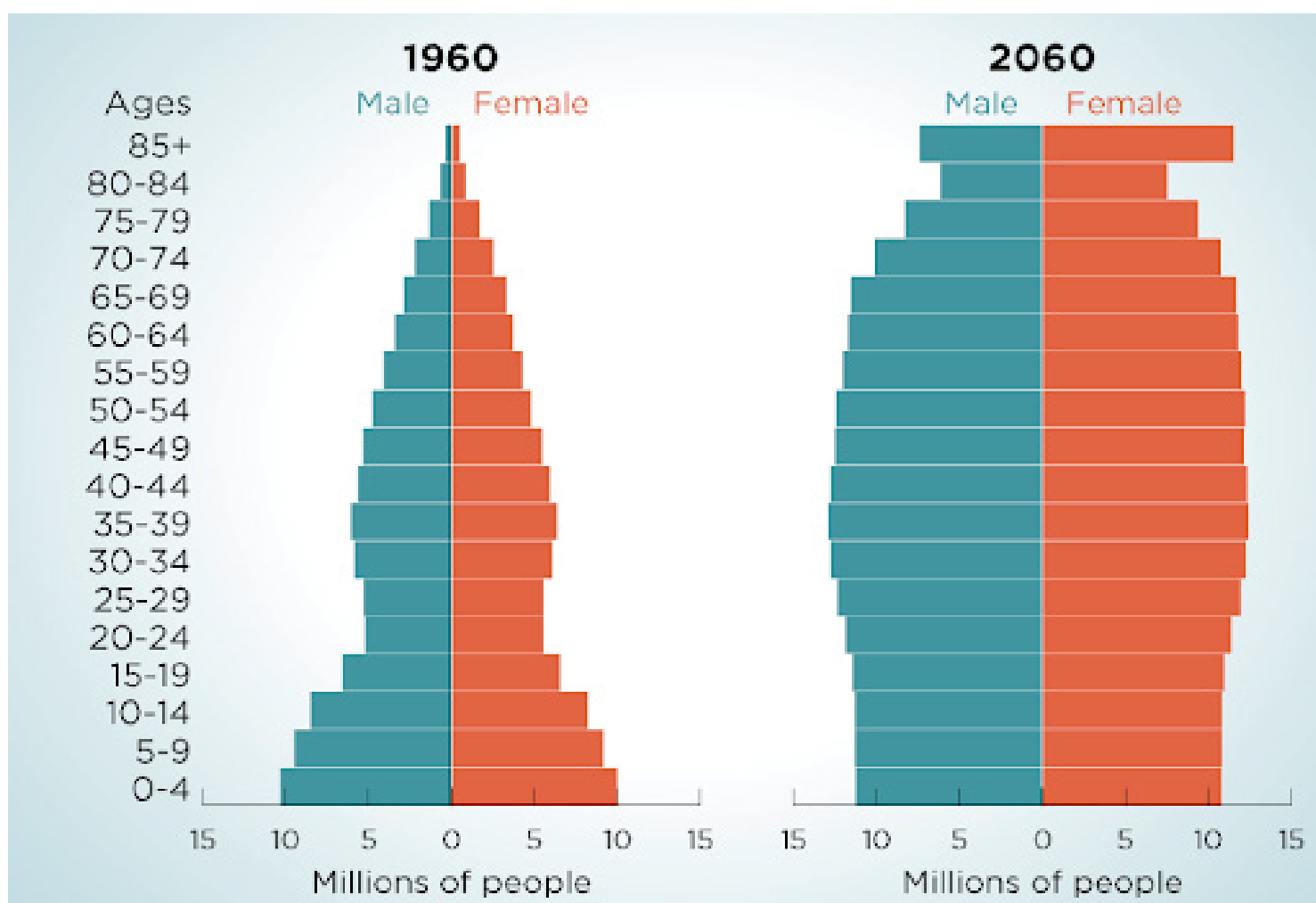
There are hundreds of forces shaping the world not mentioned here. But I'd argue that many, even most, are derivatives of those three.

Each of these Big Things will have a profound impact on the coming decades because they're both transformational and ubiquitous. They impact nearly everyone, albeit in different ways. With that comes the reality that we don't know exactly how their influence will unfold. No one in 1945 knew exactly how World War II would go on to shape the world, only that it would in extreme ways. But we can guess some of the likeliest changes.

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## ***1. A demographic shift that reconfigures modern economies.***

Here's what's happening:



Source: Census Bureau

In 1960 there were three times as many Americans age 0-4 as age 70-74. By 2060 those groups are about even.

The share of young workers is declining.

The share of older workers is rising.

The share of retired people -- or those in retirement age -- is surging.

There have been about 100 billion humans born during the 200,000 years we've existed.

For practically all of that time, making more people wasn't an issue. Keeping them alive is another story. But having lots of babies has been a fundamental part of humanity for tens of thousands of years. This is more than biological; there's a strong cultural element to reproducing.

In his book *Strategic Effects of Demographic Shocks*, James Holmes quotes Aristotle's view of ancient Sparta:

The legislator, wishing there to be as many Spartiates as possible, encourages the citizens to have as many children as possible; for there is a law that one who has fathered three sons is exempt from [military] duty, and one with four is exempted from all taxes.

In the Soviet Union, Joseph Stalin awarded the Mother Heroine Award to women with more than 10 living children.

America wasn't shy either. Gallup has asked Americans what their ideal family size is for seven decades. In 1944, 77% of Americans [said](#) having more than three children was ideal. The average woman had 3.4.

Then things changed.

The baby boom of the 1940s and 1950s was an aberration, and the economic boom that ensued led to a predictable trend: there is a long history of women having fewer children as they get richer.

Part of this is that rich countries have better healthcare, so more kids survive into adulthood. Adam Smith wrote in the 18th-century book *The Wealth of Nations*: "It is not uncommon in the Highlands of Scotland for a mother who has borne twenty children not to have two alive." This was a real problem in America just 100 years ago. Twenty-eight percent of Americans [died before](#) age 5 in 1900; today it's about half of one percent.

And wealthier families move the goalpost of expectations for raising kids, lowering the number of desired kids. Education costs in particular create a paradox where the number of kids you think you can afford declines as you get wealthier, since providing the same education opportunities you likely had is a financial burden that can't be provided to multiple children. Then there's the time and expense of parents' own education, which typically takes place during peak childbearing years.

Think of it this way, and then remember that the percentage of the population with a college degree has skyrocketed in the last 50 years:

<i>Education Level</i>	<i>Total Fertility Rate</i>
Not a high school graduate	2.447
High school, 4 years	1.947
College, 1 or more year	1.719
Associate's degree	1.820
Bachelor's degree	1.632
Graduate degree	1.596

*Source: Jane Lawler Dye, U.S. Census Bureau, "Fertility of American Women: 2006," August 2008.*

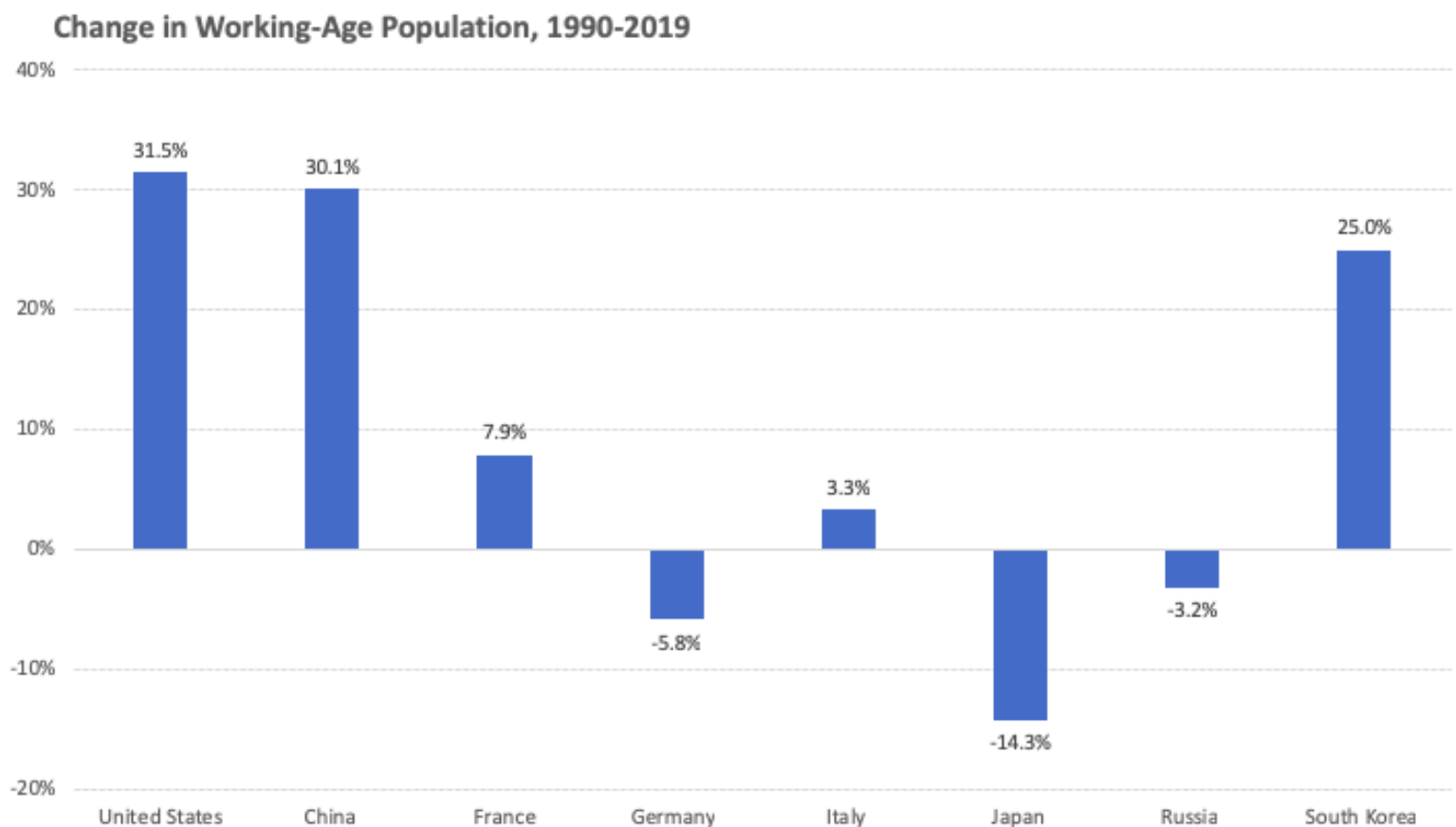
*From the book What to Expect When No One's Expecting*

Fertility in America [has declined](#) from 120 births per 1,000 women age 15-44 in the 1950s to 59 in 2018. In raw numbers, there were more babies born in America in 1952 than there were in 2018, despite the overall population more than doubling. Life expectancy at birth increased from 68 to 80 during that time.

Fewer babies while everyone else lives longer is a Big Thing, because it means the population ages. And when the population ages everything from economic growth to workplace culture to the global order of nations gets shaken up.

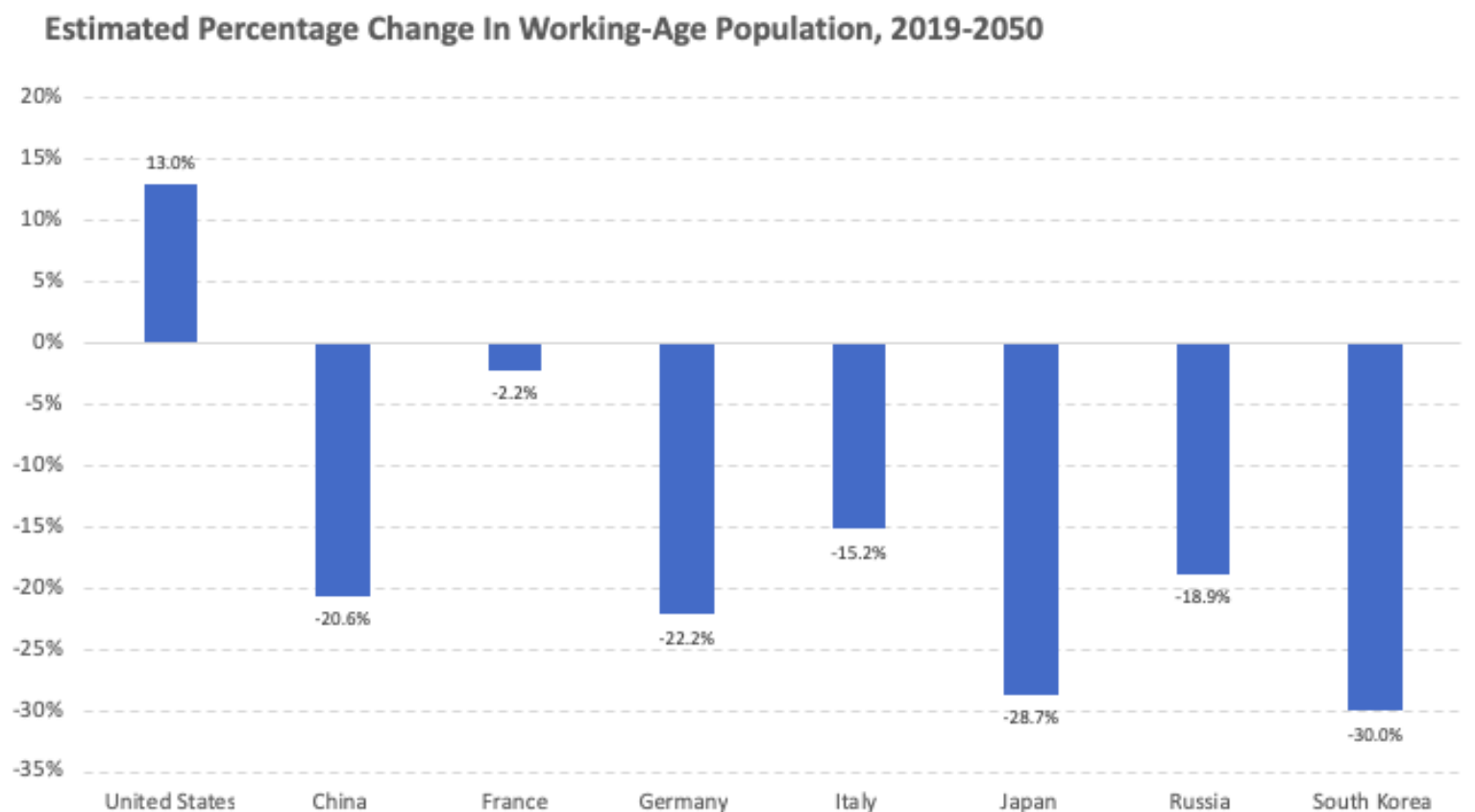
One thing that changes is that America's competitiveness increases relative to most of the rest of the world. Lower births are a global phenomenon, particularly in the developed world. And while America ages and population growth slows, the rest of the world's major economies turn into a Florida retirement community and population growth in many cases is on track to turn negative.

Here's what happened over the last 30 years:



Source: Census Bureau International Database

And here's what's projected to happen over the next 30 years:



Source: Census Bureau International Database

It's hard to overstate how big a deal this is. When people talk about what nation will own the next century they point to leadership in AI and Machine Learning, where China looks so competitive. But it's staggeringly hard to grow an economy when you lose a fifth of your working-age population in a single generation. China could invent something as big as the next internet, but when mixed with its demographics have an economy that muddles along. Europe, Japan, and South Korea are the same or worse.

Demographics will slow America's economy, but they're a five-alarm fire for other countries. So even assuming equal levels of productivity growth, the U.S. is head and shoulders better off than other developed nations, just given its demographics alone. America could drop the ball on technology while China/Europe/Japan make all the right moves, and America could still remain a much larger and more powerful economy.

People like to talk about new technologies and innovations, because that's fun. Demographics aren't fun. But they're going to be as important, if not more, to overall economic growth than most innovations over the coming decades.

Another thing affected by demographics: Fewer births means more reliance on immigration for population growth.

The year 1920 was a big year for immigration. The end of World War I reshuffled global migration. Just over 800,000 people immigrated to the United States that year.

But 2,950,000 people were born in America that year. So the ratio of new residents skewed toward American-born citizens over immigrants.

That's the way it went for most of the 20th century, especially as immigration rates fell.

But as the birth rate falls, the ratio shifts. "By 2035, immigration will add twice as many people as natural births and deaths to the population," [writes](#) Derek Thompson of The Atlantic.

The number of workers whose parents were born in the United States is expected to decline by 8.2 million over the next 15 years, [according to](#) Pew. That'll be offset by a rise of about 13 million new workers with immigrant parents. First-generation immigrants will rise by almost 5 million by 2035.

Immigration forecasts are a wildcard, blowing with the political and economic winds. But the decline of naturally born workers is set in stone -- it's already happened -- so even if immigration projections are off by multiples, a rising share of immigrant Americans is nearly guaranteed.

America was built by immigrants, who have shown to be more entrepreneurial and better educated -- immigrants are 13% of the population but 27.5% of entrepreneurs. The political dynamics aren't as clear. Derek Thompson writes:



Today the rich and mostly white upper- and upper-middle class pay the majority of federal income taxes, which often support programs to help lower-income minorities. This contributes to a “makers” vs “takers” narrative that often skirts dangerously close to dividing the country on racial lines. But within a generation or two, this picture will change. As America’s offices diversify faster than its retirement communities, the minority-white labor force will be supporting the majority-white retirees.

America’s major immigration boom took place in the late 19th and early 20th century. The coming decades could see a lower rate of immigration but with just as great effect, since the proportion of new citizens is magnified by a lower domestic birth rate.

## ***2. Wealth inequality that’s grown for four decades hits an inevitable breaking point.***

Inequality is one of the most divisive topics that exists, because it pits capitalism against fairness in ways that feel zero sum -- me vs. you, your gain is my loss, etc. It’s tribal in nature, and tribal debates can escalate into fights because you feel like your identity and dignity are on the line.

But in this story it doesn’t matter whether you think inequality is right or wrong, good or bad, or what we should do about it. Someone else can tackle those topics.

All that matters here is that it happened, and happened enormously. It’s a Big Thing that impacts all kinds of other topics.

Writing in the 1950s, historian Frederick Lewis Allen described the social revolution that took place as the Gilded Age gave way to a more balanced economy:

To understand the America of today one must not only realize how vital to its development was the revolt of the American conscience, which implanted in Americans the idea that you could repair the economic and political machinery of the country, so as to make it work better for the majority, without stopping the machine ...

... through a combination of patchwork revisions of the system--tax laws, minimum wage laws, subsidies and guarantees and regulations of various sorts, plus labor union pressures and new management attitudes--we had repealed the Iron Law of Wages. We had brought about a virtually automatic redistribution of income from the well-to-do to the less well-to-do. And this did not stall the machine but actually stepped up its power.

Just as an individual business seemed to run best when it plowed part of its profits into improvements, so the business system as a whole seemed to run better if you plowed some of the national income into improvements in the income and status of the lower income groups, enabling them to buy more goods and thus to expand the market for everybody. We had discovered a new frontier to open up: the purchasing power of the poor.

That, it seems to me, is the essence of the Great American Discovery. And it has its corollary: that if you thus bring advantages to a great lot of previously underprivileged people, they will rise to their opportunities and, by and large, will become responsible citizens.

I point this out to show that things turned out OK. They did just fine.

But a revolution it was. Top income tax rates [went from](#) effectively 0% to 94% inside of three decades.

To grossly simplify, here's the historical path of how the balance of economic power toggles between social poles:

- Person creates a great business, gets rich.
- People say, "That's great! They created a great business. They deserve to be rich." Genuine admiration.
- Wealth begets more wealth as the business compounds.
- More wealth enables power, including regulatory influence, corporate governance deficiencies, and wage negotiating leverage.
- Those powers create super wealth, and lower-income workers begin to say, "Hey, the reason you're super rich is because you got all these powers from being merely rich, and some of that super wealth looks like rent-seeking rather than creating value."
- People say, "This isn't right. You can't do this."
- Super wealthy person says, "Too bad, this is the way things work."
- The process keeps compounding.
- People feel demoralized, undignified, and like the whole system is stacked in favor of a few.
- They eventually have enough, and coalesce as a group to become powerful enough to force change, typically with taxes, minimum wages, and labor unions.
- Super wealthy person says, "This isn't right. You can't do this."
- The people say, "Too bad, this is the way things work."

Again, it doesn't matter whether you think this is good or bad or which side you sit on. For the sake of this article it just matters that it happens. And it happens in both directions. By the early 1980s the power to influence rested heavily with workers, not investors. Then power shifted again, with a 40-year boon that's gifted investors exponentially more than workers. Back and forth, back and forth.

The takeaway is that power is transitory. It shifts when those who don't have it get so fed up that they bond together to gain enough influence to take it back. Never underestimate the power of a unified group of powerless people with a shared goal.

If you accept this premise, then what's happened over the last 40 years is a Big Thing.

You've all heard the stats about how much the wealth of the top 1% has grown, how much wealth the top 100 families hold, etc. The numbers have been repeated enough, and they're usually presented in a way that frames them as too much, which, again, brings out the tribal war instincts.

What's more interesting are the people at the other end of the spectrum. They're the ones whose mentality of, "This isn't working, the system is broken, the odds are stacked against me," will -- if history is any guide -- coalesce to force the system in the other direction.

And there's a lot of them. The most important thing about this topic is that people don't judge their wellbeing in a vacuum. They measure their worth relative to the people they see around them. If your income stays the same while people around you see their income rise 10%, you will likely feel worse off. This is usually subtle, as the material possessions of those with more money inflate your aspirations, often taunting you to [close the gap between you and them by taking on debt](#).

The point is that we can't just look at how rich the top has become, or at how stagnant the bottom is. It's the gap between the two that causes one group to push back against the other.

And that gap is [the highest it's been](#) in almost a century, if not ever.

What happens when the bottom starts pushing back against the top?

Part of it is already happening. Trump, Bernie Sanders, and Brexit all represent people saying, "Stop the ride, we're going to try something new. If you don't like it, too bad. This is the way things work."

But many things will change. It's almost certain that the educational system will be upended. The current arrangement of needing a college degree in order to have a good chance at becoming and staying middle class, but taking on life-changing amounts of debt to do so if you don't have family assistance, can't last. I have no idea how it ends. But there's practically no chance that in 30 years the story is, "Everyone just kept taking on education mortgages at age 18, tuition kept rising at double the rate of inflation, and it was all OK." It's going to break somehow.

Politics is another. It's already changing. Tariffs on one end and wealth taxes on the other are symptoms of the same thing: too many voters are too upset with how the system works. I don't know where it ends up, but the federal government of, say, 1960 was unrecognizable to that of 1920. The Great Depression and World War II triggered most of that change, but the enduring social changes of that period were centered around supporting lower-income groups after the epic Gilded Age. Could be similar over the next few generations.

We'll come up with all kinds of explanations for why these things changed. But the most likely is that income inequality of the early 2000s was a Big Thing that guided the subsequent decades, as it has for centuries.

### ***3. Access to information closes gaps that used to create a social shield of ignorance.***

Carole Cole disappeared in 1970 after running away from a juvenile detention center in Texas. She was 17.

A year later an unidentified murdered body was found in Louisiana. It was Carole, but Louisiana police had no idea. They couldn't identify her. Carole's disappearance went cold, as did the unidentified body.

Thirty-four years later Carole's sister posted messages on Craigslist asking for clues into her sister's disappearance. At nearly the same time, a sheriff's department in Louisiana made a Facebook page asking for help identifying the Jane Doe body found 34 years before.

Six days later, [someone connected the dots](#) between the two posts.

What stumped detectives for almost four decades was solved by Facebook and Craigslist in less than a week.

This kind of stuff didn't happen even 10 years ago. And we probably haven't awoken to its full potential -- good and bad.

The greatest innovation of the last generation has been the destruction of information barriers that used to keep strangers isolated from one another.

The telephone and the radio came close, but were much different. In his book *The Rise and Fall of American Growth*, Robert Gordon reminds us that as recently as the late 1800s, 75% of America was “rural,” with neither telephones or postal service. What happened a town over might as well have taken place on another planet. Phone and radio transformed the 20th century and cracked those barriers. But the phone was used to talk to people you effectively had an appointment to speak with, and the radio didn’t let you talk back to it.

What’s happened over the last 20 years -- and especially the last 10 -- has no historical precedent. The telephone eliminated the information gap between you and a distant relative, but the internet has closed the gap between you and literally every stranger in the world.

It’s a Big Thing. Perhaps the biggest thing since World War II.

It’s so big that I don’t think anyone has a clue where it will lead. But let me argue a few points.

TechCrunch founder Michael Arrington [recently](#) wrote: “I thought Twitter was driving us apart, but I’m slowly starting to think half of you always hated the other half but never knew it until Twitter.” This is a good point that highlights something easy to overlook: 1) everyone belongs to a tribe, 2) those tribes sometimes fundamentally disagree with one another, 3) that’s fine if those tribes keep their distance, 4) the internet increasingly assures that they don’t. Opening your mind to different perspectives is good and necessary. But when fundamental, unshakable views that used to be contained within tribes expose themselves to different tribes, people become shocked to learn that what’s sacred to them isn’t always a universal truth. The range of political opinions has always been extreme, but what we’ve seen over the last decade is what happens when the warm blanket of ideological ignorance is removed.

Another shift is the push toward meritocracy. People who have never had a voice can, practically overnight, have the biggest. The pseudonymous blogger [Jesse Livermore](#) provides more intelligent investing analysis than entire departments at top-tier investment banks can publish. [Nick Maggiulli](#) was unknown two years ago, and had never worked in finance; now his investments articles gain more attention than most major news organizations. In effect, credentialism is melting away. I don’t care who you are or what your job title is. If you have a good idea, I want to hear it. Of course the flip side of this is dangerous, as the maniac shouting the loudest often gets the attention. But when you remove the barriers to entry you realize that talent is more common than you once thought. Thousands of Michael Jacksons, Stephen Kings, and Thomas Edison’s will be recognized in the future who would have been ignored in any other era.

A third shift is that it is now harder to hide behind, yet easier to spread, false and misleading information. I don't know how to reconcile that contradiction, but you see both everywhere. Customer reviews can accomplish what the Better Business Bureau never could, but fake reviews pose a challenge that didn't exist two decades ago. Jeff Bezos once said that as consumers become better informed businesses should put the "vast majority of energy, attention and dollars into building a great product or service and a smaller amount into shouting about it, marketing it." At the same time, spam mail exists because it works. Maybe the internet makes us better informed yet more gullible. Distinguishing the two is hard. Influence existing at the extreme poles of truth and fiction is most of what makes the internet a Big Thing.

You could continue on this topic endlessly. The odds that online dating doesn't fundamentally alter marriage over the next few generations seem, to me, like zero. The odds that online education doesn't grow in influence, also zero. Geopolitics also seems like a funny contradiction of being more fragile (diplomacy by Twitter) yet more reliant on each other (global markets) than ever. Then there's the question of the rules of how a presidential campaign works when both candidates had social media in high school, when everyone posts stuff they'll later regret. It'll be fascinating to watch -- equal parts inspirational and terrifying.

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The world is [driven by tail events](#). A minority of things drive the majority of outcomes. It's one of the most important concepts in investing, where a few positions may account for most of your lifetime returns.

History is no different. World War II, World War I, and the Great Depression influenced nearly every important event of the 20th century. Industrialization and the Civil War did the same in the 19th.

Demographics, inequality, and information access will have a huge impact on the coming decades. How those Big Things end is a story yet to be told. But when it's told we'll have a better idea of where it began.

[More on this topic:](#)

[Five Lessons From History](#)

[How This All Happened](#)

[You Have to Live It to Believe It](#)



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