

## Memorandum

To: Clients, Friends, Family & Associates of Pro@ctive CPA  
From: Mark Wyssbrod, Managing Member  
Date: February 25, 2013  
Re: Economic Update – The Coming Revolution

In this memorandum you will receive information about:

- A Quick Economic History of the Past 15 years
- The Coming Revolution – Robots Doing More
- Changes In The Economy
- Possible Solutions
- What Else Might This Change?
- Mexico the next China?

Please contact me should you have any questions. Be aware of your changing economic environment!

### **A Quick Economic History – What's Next?**

The economy has moved fast in the past 15+ years. First, we had the technology boom of the 1990s; then the dot.com bomb; followed by a housing boom and bubble; waking up to find out China turned into the manufacturing capital of the world and is the 2nd biggest economy in the world; a financial crisis and implosion; and an increase in unemployment. *What can possibly be next?*

### **The Coming Revolution – Robots Doing More**

China might not be the largest threat to US jobs in the manufacturing field. In fact, the next revolution might be the biggest economic threat to China's economy as well as US jobs. According to a 60 Minutes segment on January 13, 2013 and several news articles since, robots are replacing humans. Robots finally cost less, complete the task faster, complete the task more accurately and do not steal products. One example I heard mentioned a new warehouse, which would have employed a staff of 400+; hired approximately 40 people as the the robots did the rest. What do the other 360 people do then?

### **Changes In The Economy – Was Richard Florida Right?**

Perhaps Richard Florida was correct in this book "Rise of the Creative Class"; the economy is creating very simplistic jobs (think coffee shop baristas) and very high-end, complex creative jobs (computer software developers). Technology is replacing more and more jobs at faster and faster rates. How can you train someone with minimal education and work experience to climb up into a higher-end complex creative job?

We see the income discrepancies in financial reports and most assume the rich are just greedy and want more. But what might be happening is a result of the types of jobs being created. How much value does a coffee shop barista add to the economy versus a computer programmer?

The income discrepancy in 2012 might have been the highest since the 1970s, almost a 10-1 ratio (depending on the information source). This ratio might be misconstrued. A software developer might get paid 10x the lower service job, but they might add 20x or 30x of value. ***This means the low-wage service is being overpaid based on the value add to the economy and the higher-level service provider is being underpaid based on the value add to the economy.***

### **How Can Small Businesses Take Advantage Of This?**

Small businesses are under enormous financial pressures at the moment. Revenues decreased for years with margins decreasing at the same time (the opposite of mega-corporations with higher revenues and higher margins); cash flow nightmares as small businesses made profits and had to use them reduce debts instead of re-invest in the business; and equity has been minimal to negative.

Small businesses desperately need this technology to improve efficiencies, but can they afford it? Do they have the resources (financial and time) to invest in the new technologies?

### **Solution**

- Small businesses need to become familiar with the technology, which can boost their production and efficiencies, while at the same time lowering costs.
- Small businesses need to build capital in order to fund future investments in technology

### **What Else Might Happen With Robots Doing More?**

- Unemployment may stay higher than anticipated
- Long-term unemployment may be a permanent issue
- Deflationary affects
  - Unemployed individuals cannot afford much
  - Robots costs less than humans so an enterprise can be more profitable while charging less
    - Charging less can win business from competitors
- The income discrepancies will continue to widen
  - The higher-end service jobs, which demand creativity and solutions, will be paid higher amounts
  - The lower-end service jobs, which are more repeat experiences and do not require the employee to think, will be paid lower amounts
    - And these jobs might be the next to be replaced by robots!

**An Interesting Read: Mexico the Next China?**

[http://www.nytimes.com/2013/02/24/opinion/sunday/friedman-how-mexico-got-back-in-the-game.html?\\_r=0](http://www.nytimes.com/2013/02/24/opinion/sunday/friedman-how-mexico-got-back-in-the-game.html?_r=0)

**Conclusion**

The world is continuing to change and at an alarming rate. Will small businesses be able to afford and implement this technology quick enough to survive?

Where are you John Henry?

Keep your eyes open for these subtle changes and be prepared to take action!

Your Pro@ctive CPA Team

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