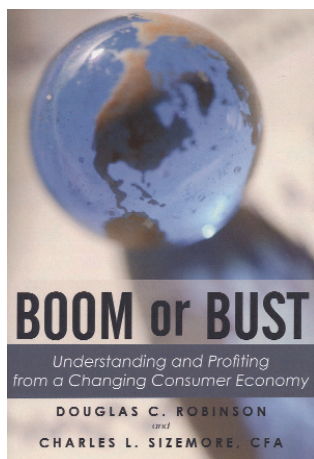




Are Demographics Destiny?

By Shayne C. Kavanagh



Boom or Bust:
Understanding and
Profiting from a Changing
Consumer Economy

By Douglas C. Robinson
and Charles L. Sizemore

iUniverse

2009, 203 pages, \$18.95

Boom or Bust builds on the groundbreaking work of financial writer Harry S. Dent Jr., the first mainstream thinker to use demographics as an economic forecasting tool. The authors apply demographic analysis to a myriad of economic questions, many of which directly relate to state and local government — including economic growth, inflationary pressures, the strength of the dollar, health care costs, and housing.

Key to the book's analysis is the proposition that population characteristics drive economic performance in a modern consumer economy. While the changing size of the population is obviously important, Robinson and Sizemore highlight the special and often underappreciated importance of consumers' age and stage of life — the composition of the population. For example, a person's consumer spending levels off around age 46 and then declines after age 50. Hence, adjusting the birth index forward 48 years (between 46 and 50) provides a good projection of consumer demand. This model, called the "HS Dent Spending Wave," provides a big-picture forecast of consumer spending and the economy (see Exhibit 1).

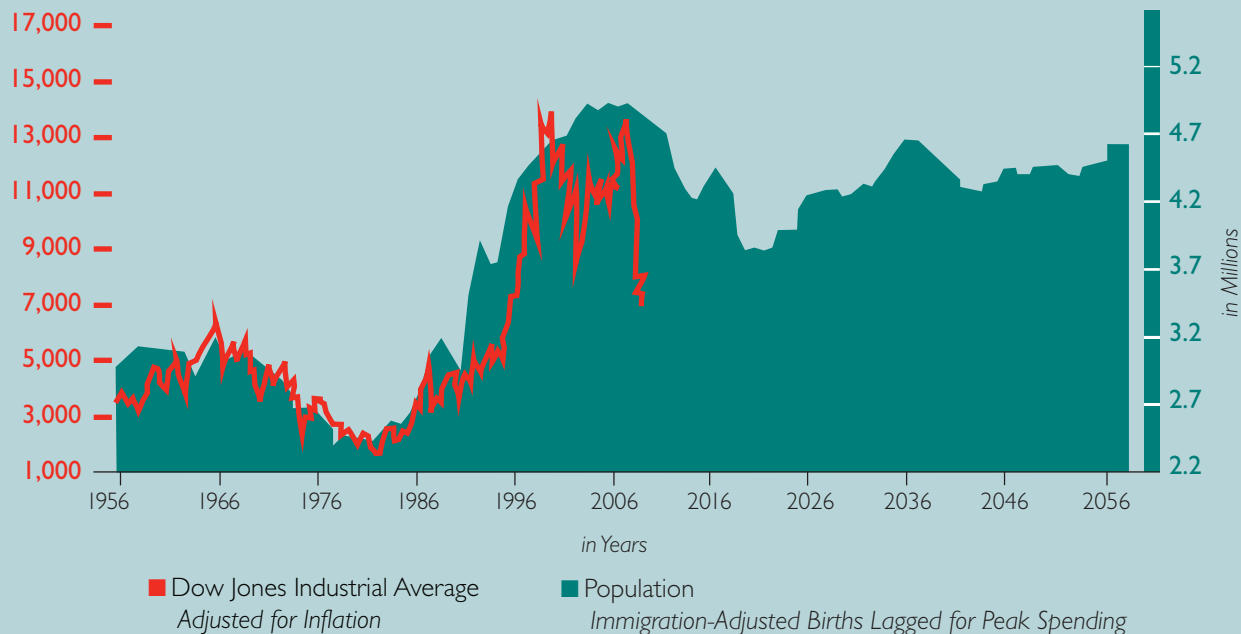
This basic idea — that income and consumption both increase as people reach middle age and then decline afterward — is essential to understanding the future performance of con-

sumer-based economies like those found in the United States, Canada, and the rest of the developed world. Hence, the imminent retirement of the Baby Boomer generation means that the age cohort with the largest relative propensity for spending (those aged 46 to 50) will soon be decreasing in relative size. This, in turn, means that the United States will find itself on the downside of the spending wave and experiencing a sustained period of low economic growth or perhaps even mild decline.

Boom or Bust applies similar demographic insights to inflation. Inflation has traditionally been a major concern of the Federal Reserve (as well local governments and businesses) because of its negative impact on price and wage stability and long-term investment decisions. *Boom or Bust* (and the Harry Dent school of thought) correlates inflation and workforce growth rates under the proposition that children and young people are inherently inflationary because they consume much more than they produce. They increase demand without contributing to supply, driving up prices. The elderly also consume more than they produce, but the imbalance is less extreme. Hence, as the population becomes relatively less youthful, inflationary pressures will decrease to the point where Robinson and Sizemore expect the United States to experience deflationary pressures. To further support their claim, they cite the

Exhibit I: The Spending Wave

Births Correlated with Peak in Family Spending



example of Japan — a country whose demographics, in many ways, foreshadow those of the United States. Twenty-five percent of the Japanese population is currently over the age of 60. The Japanese economy has experienced a prolonged period of economic stagnation and virtually no inflation — and, in fact, mild deflation — despite massive public policy efforts to counteract these patterns.

The authors also explore the implications of its demographics-based economic analysis for other issues, including the problem of state and local governments' other post-employment benefit (OPEB) liabilities. OPEB liabilities are a tremendous potential burden, not only for government organizations but also for the taxpayers who fund them. The authors make the case that since the United States is in store for a prolonged period of relative economic

stagnation, relying on economic growth and consequent increased revenues to solve the OPEB problem is not a reasonable strategy. *Boom or Bust* first demonstrates the extent of the problem, which is substantial. For example, Alaska's OPEB underfunding is \$7,047 per capita, and Alabama's OPEB liabilities are equal to 1,574 percent of its current long-term debt. The book then offers a variety of risk management and funding solutions for reducing the scale of the problem. While many of these solutions may be familiar to veterans of public finance, the book provides a useful summary of ideas and presents them in a compelling context, which may be helpful in convincing decision makers and other stakeholders of the need for sometimes painful solutions.

Boom and Bust also addresses demographics on the state and local level. Here, migration patterns take center

stage. Americans have been quite mobile in the past, with up to about 10 percent of the population moving between states in a given year. Using Dent's research, Robinson and Sizemore point out that this 10 percent tends to consist primarily of the young and upwardly mobile (who are powerful catalysts for economic activity). Hence, relative gains and losses in population between states and regions have economic implications beyond which the numerical shifts might initially suggest. The West and the South have experienced much greater growth than the nation as a whole (10.5 percent and 9.8 percent versus 6.9 percent, respectively, for 2000 through 2007). This suggests that these areas may experience relatively greater economic prosperity.

Robinson and Sizemore use California counties to illustrate local demographic analysis. They show how

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relative growth has shifted away traditional population centers on the coast toward inland counties as residents seek lower property costs and a less intensely urban lifestyle. These trends have real implications for local government policy. In facilities planning, for instance, one question is how to build in growing areas and what to do with underused properties in stagnant areas. And as the housing market continues to decline, high-growth areas need to find ways of managing the fallout from debt-laden property buyers with exotic mortgages.

In summary, *Boom or Bust* provides an insightful and fresh look at economic analysis by demonstrating how demographic trends, both quantitative and qualitative, affect economic conditions. It also provides useful background information on different schools of thought relating to inflation, dollar strength, and economic growth, allowing the reader to understand the authors' ideas in the context of other, sometimes competing, economic theories. *Boom or Bust* can, therefore, introduce the finance officer to valuable concepts of demographic analysis that can be applied and expanded in the practice of local long-term financial forecasting and planning. The book can also provide a review of more general, yet practical, economic theory that will hone analysis of economic forces affecting local government. ■

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