Economic Review

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Musings & Amusings: Old Age

"We could certainly slow the aging process down if it had to work its way through Congress." -Will Rogers

"If I'd known I was going to live this long, I'd have taken better care of myself." -George Burns

"It is a sobering thought, that when Mozart was my age he had been dead for two years." -Tom Lehrer

Happy Anniversary: We're All Getting Older! June is traditionally a big month for anniversaries. In my own case, there's a major wedding anniversary and a college reunion to remind me of being a senior citizen. June also marks the fifth anniversary of the end of the Great Recession which began in December 2007 and ended in June 2009. Since then, we've been experiencing what I call the "Not So Great Recovery." As discussed below, the current recovery is not aging like a fine wine.

At five years, the recovery may not yet have earned senior citizen status, but it has certainly achieved "middle age" by historic standards. From 1949 though 2009, the average expansion lasted 58.4 months. The "granddaddy" of all expansions lasted 10 years, spanning March 1991 to March 2001.

Some people make too much out of the 58.4 months between recessions by saying things like "We're due for another one because they happen every five years." In reality, the average holds very little information since the time between recessions has been as short as 12 months and as long as 120 months (I have socks older than that). It is events such as financial chaos and accelerating inflation that lead to recessions, not the passage of time.

The most dramatic contrast in the Recovery Scorecard table is the huge growth of corporate profits compared to the much more lackluster recovery of jobs. These profits are the comprehensive measure from the Gross Domestic Product (GDP) accounts. They have not only rebounded from the recession lows but they are 55 percent above the pre-recession high reached in 2007.

Interestingly, GDP includes the Federal Reserve's interest earnings on its vast holdings of bonds in the profits of financial institutions. Until recently, annual profit was in the $20 to $30 billion range, but the expansion of the Fed's portfolio under the Quantitative Easing Program has boosted it to nearly $100 billion. Don't fret: for years, the Fed has turned its profits over to the Treasury where they become part of federal receipts. When I subtracted the Fed earnings from the total profits number, the result is still an awesome rise of more than 50 percent!

NATIONAL RECOVERY SCORECARD

	Peak	Low	Latest	% Peak
GDP (BIL '09 $)	14,996	14,357	15,942	6.3
DOW JONES	14,165	6,547	16,427	16.0
Corp. Profits (Bil. $)	1,129	794	1,743	54.5
Ex. Federal Reserve	1,092	751	1,644	50.5
Jobs (thous.)	138,365	129,655	137,928	-0.3
Unemployment (%)	4.4	10.0	6.7	

In contrast, the jobs numbers were still below 2007 by a small margin in March. Private sector jobs have finally gotten back to their 2007 level, but the drop in government jobs has dragged down the total. However, comparing today with 2007 can be misleading. The working age population has grown by about 15 million since 2007. Accordingly, we should have roughly nine million more jobs today than we did in 2007 if the economy had continued along a normal growth path instead of plunging into recession.

The shift of GDP towards corporate profits has been nothing short of breathtaking. For much of the post WWII period, after-tax profits accounted for 5 to 6 percent of GDP. During the past few years, the share has nearly doubled to almost 10 percent. Employee compensation (wages and benefits) has fallen to 53 percent of GDP – the lowest in nearly 65 years. (The rest of GDP consists of depreciation, proprietors' income, interest and dividends.)

Why has this shift taken place? Some experts, most notably columnist and Nobel Laureate, Paul Krugman, emphasize the inadequacy of economic stimulation, especially fiscal policy and even monetary actions. They point to the fact that federal "fiscal stimulus" (new tax cuts and spending programs) amounted to plus 2.5 percent of GDP in 2009 and then plunged to minus 1.5 percent last year. They also usually say that the 2009 stimulus wasn't large enough to begin with and that the Fed could have done more.

Others emphasize that the world is undergoing massive structural change. I just finished reading a fascinating book, *The Second Machine Age*, by Erik Brynjolfsson and Andrew McAfee. Interestingly, it was one of the first books I purchased to read electronically on my new Amazon Kindle. The book looks at the digital revolution that is unfolding at a truly exponential pace right now.

They delve into the enormous "bounty" that this creates in the form of income and wealth but they worry about the "spread" which is their term for the distribution of the fruits of this revolution. As I write, workers are being made obsolete by new technologies such as 3D printing. (I remember, as a child, seeing Vincent Price in the 3D movie, *House of Wax*.) The "spread" problem is exacerbated by the growth of a "winner take all" economy. One interesting example they give is in the development of "apps" for smart phones or computers. If a bricklayer is, say, 10 percent less productive than the best in the trade, he/she can still find work by earning 10 percent less than the best in a well functioning market. However, in the world of apps, the best gets the entire market while the one that is 90 percent as good gets nothing.

Furthermore, what started out as unemployment or underemployment due to inadequate aggregate demand can "morph" into structural problems. The longer a person remains out of work, the more likely their skills are to become rusty or even obsolete. The greater the availability of fresh, young candidates, the more an employer is able to avoid hiring those who've been looking for work for a long time. Television personality Art Linkletter (another name from the distant past) said, "The four stages of a man are infancy, childhood, adolescence and obsolescence."

Regional Performance: Recovery in the Northeast continues to be very uneven. By looking back at the pre-recession peak, both Boston and metro New York jobs are well above the pre-recession peaks. Both have more than "fully recovered" and, in this important sense, have done significantly better than the nation.

Connecticut and Rhode Island have not fared nearly as well. Jobs are still below 2006 in Rhode Island and 2008 in Connecticut. Another way of looking at this is to say that both states have only regained about half what they lost during the downturn while Boston and New York have regained all the lost jobs plus a lot more.

Why these differences? Connecticut and Rhode Island suffered much worse recessions than either Boston or New York. Hence, they had deeper holes to climb out of, making it harder to get back to the previous peaks.

They also had more anemic recoveries that might be easier to explain. Getting rid of the deficits not only siphoned funds from the economy through tax increases and spending cuts but they also created a shadow of uncertainly.

Finally, there seems to be a negative correlation between age and economic performance. Boston and metro New York have somewhat smaller percentages of their population in the 55 and older group than Hartford, Bridgeport-Stamford and Providence. By the way, metro West Palm Beach, Fla., has one of the highest concentrations of older folks in the country. There's a residential community in the area called "Journey's End." ... Kid you not!

Don't get me wrong, some (most) of my best friends are in this age group, but older means smaller labor force participation, among other things. The analysis is certainly more complicated than my simple comparison. And, as with most correlations, there's a bit of the chicken vs. egg issue here, too. Do jobs grow slowly because the population is older, or is the population older because jobs grow slowly? Speaking of which, comedian George Burns once said he was so old that when he ordered a three-minute egg, the waitress asked for the money up front.

LABOR MARKETS: MARCH 2014

		% Change in jobs since	
	Unemployment %	Peak	A year ago
Connecticut	7.0	-3.2	0.6
Massachusetts	6.3	2.1	1.5
Boston	N/A	3.6	1.6
Rhode Island	8.7	-4.0	1.4
Metro New York	N/A	3.4	1.6
United States	6.7	-0.3	1.7

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