Economic Trends

BY MIKE MCNAMEE

NO FIRE SALE ON BOOMER ASSETS
Overseas buyers will step in

Who will buy baby boomers’ accumulated assets when they retire and need income? With the far smaller cohorts of the baby bust coming on their heels, some experts forecast little demand for boomers’ houses, stocks, and bonds. “The words ‘Sell? Sell to whom?’ may haunt the baby boomers in the next century,” warns Wharton School finance professor Jeremy J. Siegel, who predicts a gigantic fire sale.

But those fears are overblown, says economist James M. Poterba of Massachusetts Institute of Technology. In a paper for the National Bureau of Economic Research, Poterba finds no historical evidence that demographic shifts drive returns on financial assets. Age-related changes are so small and gradual that they are swamped by other factors, especially in the stock market.

One problem for the alarmists is that markets move faster than populations.

THE ELDERLY DON'T CASH IN

“...The life cycle of the baby boom was clear by 1965,” Poterba points out. “Forward-looking markets could adjust prices [upward] long before the boomers entered their savings years.”

And if history is any guide, boomers won’t consume all their assets. Poterba’s calculations, based on Federal Reserve data, show the elderly hang on to more wealth than a life-cycle model of saving and spending would predict (chart). The uncertainty of old-age medical and nursing-home expenses holds down spending, as does a desire to leave bequests.

The baby boomers’ ace in the hole may be overseas, as developing nations with young populations create wealth and demand financial assets. That might not protect boomers’ home values: A prosperous entrepreneur in Delhi probably won’t want a bungalow in Boston. But the globalization of markets, Poterba says, should put a floor under today’s stock portfolios.

FRIEND OF BULL AND BEAR
Info tech has driven both markets

If demographics aren’t moving the stock market, what is? Information technology, say Jeremy Greenwood of the University of Rochester and Boyan Jovanovic of New York University in an NBER paper, has driven both the bear market of the 1970s and the bull market since then.

New technologies, such as computers, tend to be developed in small, privately held companies. In fact, the prospect of new technology actually depresses stock prices, Greenwood and Jovanovic say. And some investors forewarn that the equipment and techniques used by the economy’s dominant companies may soon be obsolete. While the IT revolution was brewing in the 1970s in labs and garages, stocks fell. Total market capitalization dropped from 113% of gross domestic product in 1965 to 45% of GDP in 1974 and was no higher in 1981. Of course, it wasn’t the only depressant in the 1970s; Inflation and poor productivity growth played a part.

As IT developers started going public and growing in the 1980s, Wall Street surged. By 1996, the market’s value was 132% of GDP. Older companies, those traded on major stock markets in 1968, accounted for less than a fifth of the 1981 to 1996 rise in market cap. Today’s strong market reflects the belief that technology will continue to pay off for at least another decade, Jovanovic says.

BIG REBOUNDS
POPULATION CHANGES IN WEST BENGAL METRO AURبت

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TIPS TO PICK THE BEST EMPLOYEE
Don’t rely on “life” stereotypes

You’re choosing between two equally qualified job candidates: One single, the other married with kids. Which will be the more committed employee? One stereotype says parents are more settled and dependable; another says single employees have fewer distractions.

Both stereotypes are wrong, says workforce researcher Mary B. Young, an adjunct professor at Boston University. In a study she wrote for the Conference Board, Young concludes “life status” has little bearing on whether an employee is “committed by choice”—motivated by a positive attachment to the firm. One of the prime measures for this desirable type of commitment is the worker’s general attitude.

What employers must watch out for, Young says, are workers who are “committed by necessity”—who soldier on because they fear changing jobs or being fired. These dutiful employees have worse attitudes and are less likely to help build the organization, Young finds.

Marital or parental status doesn’t predict either type of dedication, Young says. Indeed, married workers with no children can rank highest in either type.