



OAKWORTH  
CAPITAL BANK

COMMON CENTS

All the debate over the fiscal cliff has masked some real problems in our nation's economy. We are so focused on short-term economic growth, you could argue we are failing to see the forest for the trees. Will either political party's taxing & spending proposals really permanently drive the US economy back into the Middle Ages, or even worse, the 1970's? Not hardly likely. Tax rates alone won't do that, nor will spending cuts. However, couple those things with any tightening in credit and unfavorable demographics, and, well, we just might have a problem.

We talk about the tradeoff between risk and return in the investment industry. Intuitively, you receive a greater return if you take more risk, and vice versa. Of course, this might not always play out exactly as we would like, but, over the long run, it seems to hold true. Risk begets reward, and reward begets wealth. As such, the real issue, in my opinion, is: how do we get US businesses, investors, and workers to start taking more risk?

That is the \$64,000 Question.

Historically, people become more risk averse as they age. This makes sense, as the older you get, the less time you have to earn back your money, or lost wealth, if your risks work against you. Historically, the biggest risk takers, as defined by business start ups, seem to be workers in their prime earning years. Depending on who you ask, this is between the ages of 40 and, say, 55.

As such, that is the group we need to energize to take risks, and grow the economy. In the United States, this would be the tail end of the Baby Boomer generation and the first decade of Generation X, also known as the Baby Bust Generation.

From 1910-2009, the number of live births in the United States peaked in 1957 at 4,308,000, when the birth rate was 25.3 per 1,000. In 1958, the number of live births began a downward decline until 1973, when it hit 3,136,965, for a birth rate of 14.9. That represents an eye-popping 27% decrease from the high. Perhaps not so coincidentally, those folks born in 1957 turned 55 this year, and those born in 1973 hit 41.

Therefore, the core of the entrepreneurial age demographic, 40-55, was born in a period of substantially declining birth rates in the United States. Put another way, there are substantially fewer potential Generation X entrepreneurs out there, in absolute and relative terms, than there were, and are, Baby Boomers. As a result, there are fewer potential entrepreneurs to stimulate the US economy through business creation, if history repeats itself, at least along this demographic.

Fewer people than the previous generation = fewer potential entrepreneurs. Does this make sense? It does to me.

*Inside this issue:*

Something to Think About	1-2

**“Ah, youth is wasted on the wrong people.”**

**Grumpy Old Men Everywhere**

## Something to Think About, *cont.*

This is a huge part of our problem, and no one seems to notice, at least no one in Washington. By focusing the debate solely on income, both political parties are missing the point. The key to our fiscal problem is growing the economy, and we need Generation X to be more entrepreneurially driven than the Baby Boomers in order to do so, to the tune of about 25%. What is either side doing to energize this group? As I am part of it, I would have to say it is doing as little as humanly possible.

Why? Well, from what I have read, the average age of the House of Representatives is close to 58, and it is around 63 in the Senate. What would be the mindset of this age group? Would it be risk taking? Or would it be protecting what they already have? The leading Republican in the House is John Boehner, currently 63. The leading Democrat is Nancy Pelosi, who comes home at 72. In the Senate, Harry Reid is now 73, and Republican leader, Mitch McConnell, is a mere lad at 70.

Shoot, in 1980, many people wondered whether Ronald Reagan was “too old” to be President at 69. Why did they think that way? Well, the average age of the House in 1981 was around 49, and the average age in the Senate was about 53, according to the Wall Street Journal. Both chambers of the Congress have been getting older since that time, to the point where Capitol Hill is older than at any point since 1949, the year the WSJ data started!

Is there any wonder Washington is as it is? It has aged, and is therefore becoming more risk averse. As it becomes more risk averse, it becomes less business friendly. As it becomes less business friendly, it sits on the entrepreneurial class, which is already smaller than it was! Whew.

So, in conclusion, I submit we need to rethink what is really happening in our country, and somehow enfranchise Generation X to take a much greater leadership role than it has. How we or Washington does this is anyone's best guess; however, it needs to start working on a solution NOW, or we could be in a sluggish entrepreneurial cycle for another, well, long period of time.