America's Depressed Counties

BONNER & PARTNERS

Bill Bonner's Diary

SPECIAL REPORT 2018

America's Depressed Counties

By Joe Withrow, Analyst, Bonner & Partners

The United States is a large, diverse nation full of 325 million people. The nation is composed of 50 states. Those states are composed of 3,141 counties. And those counties are very different from one another… as are the people who inhabit them.

But the Bureau of Economic Analysis (BEA) ignores that fact in its analysis. Instead, it rounds up economic statistics from all over the nation. Then it picks out the averages… and puts makeup on them. It smooths out their wrinkles and evens out their complexions.

For instance, GDP includes "all private and public consumption, government outlays, investments, private inventories, paid-in construction costs, and the foreign balance of trade."

Can you spot the problem?

GDP measures government outlays… but those outlays exceed tax receipts by a wide margin every year. That's where the federal deficit comes from.

How is that possible?

As Bill has pointed out in his *Diary* countless times, the government magically conjures up money into existence to make up the difference.

Well, it's not really magic. The government just creates a bond and sells it to the Federal Reserve… which "writes a check against itself" to create the money it needs to buy the bond.

They are very honest about this. The Fed tells you how it works right on its website.

So, a portion of government outlays is financed by money created from nothing… and that is picked up as "growth" in GDP.

But there's more to the story.

The government gives that money to real people – defense contractors… corn farmers… state government officials… and, of course, people on the dole.

The people receiving that money then spend it on something… which is picked up in the "private consumption" part of GDP.

That means GDP records the Fed's "fake money" as "growth"… twice.

By the way, government transfer payments have exploded by 45% since the 2008 financial crisis. And GDP metrics have captured every single penny of that as "growth."

Bill's right. That is less than unhelpful.

A Better Way Forward

If GDP is not the best measurement of economic health, what is?

That's when the Bonner & Partners research team dusted off our old copy of *Human Action* – Austrian school economist Ludwig von Mises' great treatise on economics.

Economics, said Mises, was nothing more than the study of human action – the preferences and choices that people make in their daily lives:

> *Choosing determines all human decisions… In making his choice, man chooses not only between various material things and services… All ends and all means are subjected to a decision which picks out one thing and sets aside another. No treatment of economic problems can avoid starting from acts of choice.*

In other words, economics is about real people making real choices. It is about individuals making decisions.

Should I go out to eat… or go to the grocery store?

Should I put a new roof on the house… or a bucket under the leak?

Should I go out to the movies… or turn on Netflix?

Should I buy Snapchat… or a 1 ounce Gold Eagle?

Should I take the job waiting tables… or collect unemployment benefits?

These are the decisions, made in private by millions (and billions) of people, that determine economic activity. The bureaus and think tanks could not possibly measure this.

So from the human action perspective, it stands to reason that the economy grows when people get richer. And it shrinks when they get poorer.

To uncover which American counties are depressed, we need to find out where people are getting richer. And where they are getting poorer.

Doing that is easy. You just go backstage at the BEA where they keep the county statistics… and you take the makeup off.

So that's what we did.

Lots of Wrinkles

What we found was that some counties have lots of wrinkles. Some are covered with pimples. Some haven't gotten off the couch in a while.

With that said, we present to you the Bonner & Partners Map of Depressed Counties.

Remember, this is a proprietary map created from proprietary data. We are determining which counties are depressed, and which aren't, according to a scoring system that we established.

We aren't following any of the official definitions for expansion… recession… or depression…

That's because we think those definitions are bunk. They are meaningless, specifically because they disregard human action.

So, our scoring system is not designed to give you impressive data points regarding economic metrics within a particular county. All we are doing is telling you where people have gotten richer… and where they have gotten poorer.

That's it.

The counties where people have gotten poorer are in a depression. The poorer the people got, the bigger the depression by our logic.

By the way, we are determining which counties are richer… and which are poorer… by looking back at where they were 10 years ago. We are comparing each county to the younger version of itself.

We are not comparing counties to each other or to any national average because that would disregard the uniqueness of each county… and the people living there.

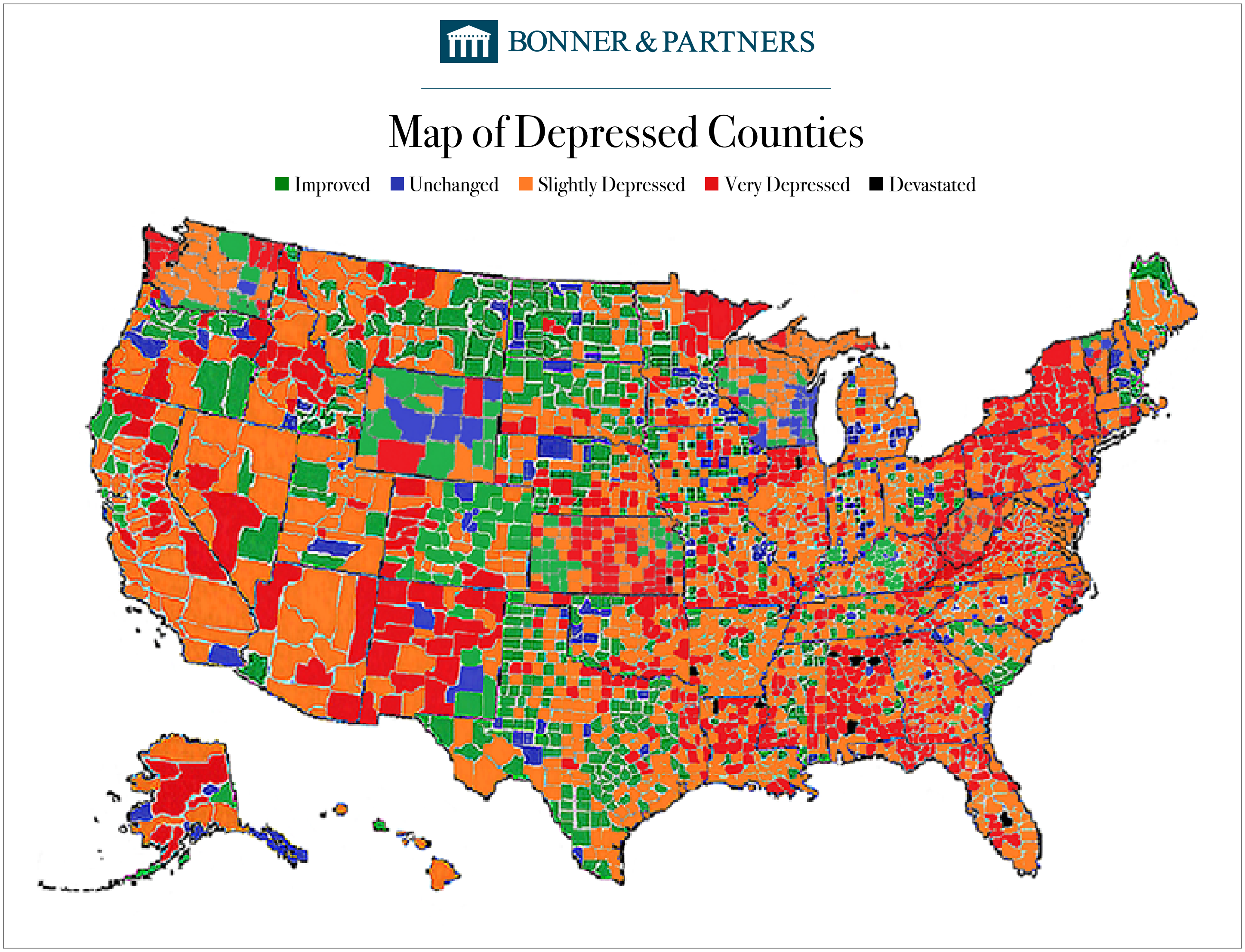
So just because we say people in Clarke County, Iowa got richer, but people in San Bernardino County, California got poorer… that doesn't mean that people in Clarke are richer than people in San Bernardino. It means that people in Clarke are richer today than they were 10 years ago… and people in San Bernardino are poorer today than they were 10 years ago.

After all, isn't that what really matters at the end of the day?

So here's what you are looking at:

When you see green, people in that county have gotten richer.

When you see blue, people in that county haven't gotten richer or poorer. They are just about where they used to be.



When you see orange, people in that county have gotten a little bit poorer.

When you see red, people in that county have gotten quite a bit poorer.

And when you see black, just think of the honorable Ms. Yellen plowing through that county with a bulldozer.

How We Measure Depression

Our scoring system is composed of four fundamental metrics: unemployment, labor force participation, poverty rate, and inflation-adjusted wage growth.

We assigned each of the 3,141 U.S. counties scores according to whether those metrics went up or down over the past 10 years… and by how much.

The more unemployment increased… and labor force participation decreased… and poverty rates rose… and inflation-adjusted wages shrunk… the poorer people must have gotten in that county.

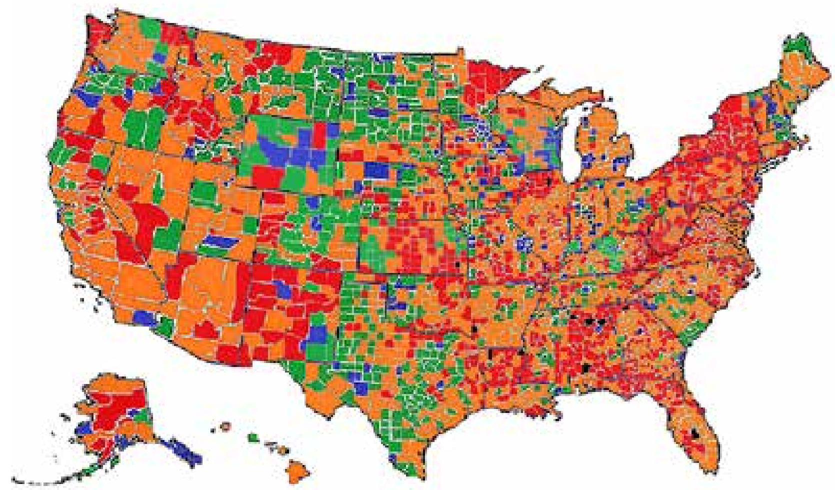
It's important to remember that these metrics were designed to give us an idea of the general economic health of American counties. It's not intended to tell us the economic story of each and every citizen in that county.

We say that people in Cullman County, Alabama got steamrolled by a Yellen-dozer… But that's a general statement.

We haven't met all the people in Cullman County. To be honest, we haven't met even one person in Cullman County.

And we know that there's got to be a few folks there who are doing better now than they were 10 years ago.

But if most of the other jobs moved to the city… and if most of the people who used to work those jobs dropped out of the labor force… then the people in Cullman County have generally gotten much poorer.



How We Scored Each County

Unemployment

- If unemployment increased by 1 - 49% over the past 10 years, we assigned one Doom Point to that county.
- If unemployment increased by more than 50% over the past 10 years, we assigned two Doom Points to that county.
- If unemployment decreased over the past 10 years, we subtracted one Doom Point from that county.

Poverty

- If the poverty rate increased by 1 - 49% over the past 10 years, we assigned one Doom Point to that county.
- If the poverty rate increased by more than 50% over the past 10 years, we assigned two Doom Points to that county.
- If the poverty rate decreased over the past 10 years, we subtracted one Doom Point from that county.

Labor Force Participation

- If labor force participation decreased over the past 10 years, we assigned one Doom Point to that county.
- If labor force participation increased over the past 10 years, we subtracted one Doom Point from that county.

Inflation-Adjusted Wage Growth

- If inflation-adjusted wage growth decreased over the past 10 years, we assigned one Doom Point to that county.
- If inflation-adjusted wage growth decreased by more than 5% over the past 10 years, we assigned two Doom Points to that county.
- If inflation-adjusted wage growth increased over the past 10 years, we subtracted one Doom point from that county.

* We used the BEA's statistics for unemployment, poverty, and labor force participation.

** We used the BEA's statistics for wage growth, but we adjusted that number by inflation as measured by the CPI back in 1990 (before they manipulated the model).

Our Scoring System

1 point or less: The county is better off today than it was 10 years ago (Green).

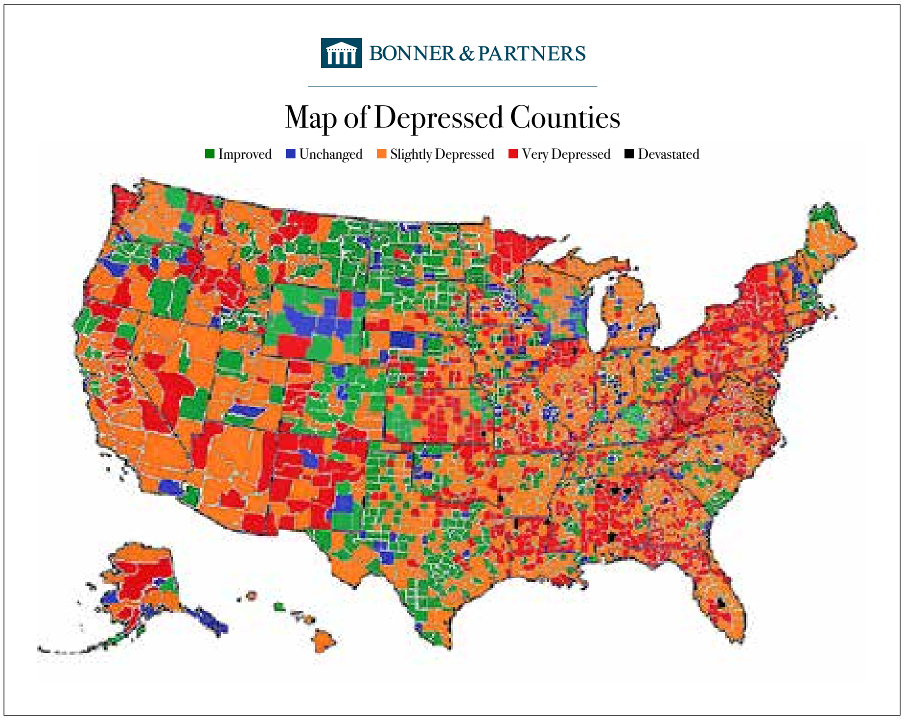
2 points: The county is not much better or worse than it was 10 years ago (Blue).

3–4 points: The county is slightly depressed (Orange).

5–6 points: The county is very depressed (Red).

7 points: The county got steamrolled by a Yellen-dozer (Black).

Here is the map again, now that you know what you are looking at.



The map shows that people in 2,278 counties have gotten poorer over the past 10 years. As best as we can tell, that means 73% of U.S. counties are in a depression.

Seventy-three percent!

Let's look at each of our metrics. Over the past 10 years:

- Unemployment has increased in 56% of U.S. counties.
- Labor force participation has decreased in 60% of U.S. counties.
- The poverty rate has increased in 87% of U.S. counties.
- Inflation-adjusted wage growth has decreased in 98% of U.S. counties.

Which Areas Are Depressed?

When we started this project, we had a very good idea of what the county map would look like. All the counties with major cities would be green. Everything else, especially in flyover country, would be orange and red.

We were wrong.

As you can see, most of the "green" counties are in flyover country. And everything else is mostly orange and red.

This surprised us at first... But it's easy to see why this is the case. Look at the map one more time.

You can see that most of the green is concentrated in seven states: Texas, New Mexico, Colorado, Wyoming, Montana, and the two Dakotas.

Do you know what they each have in common?

Shale oil.

People in those seven states have gotten richer over the past 10 years because of an explosion in shale oil production... and because of all the commerce that follows such productivity.

Think about this: At the height of the shale oil boom, several publications reported that a pizza delivery guy in Sidney, Montana was making $38 per hour. And apparently somebody opened up a water slide amusement park in that same town.

I don't know that either of those items are wise or sustainable... but they are evidence of people getting richer.

And it wasn't just Sidney – similar things were happening in small towns all over shale oil country.

Meanwhile, the rest of the country has struggled to overcome the political rules, regulations, and restrictions that curtail commerce and skim from the value it produces...

And then, you end up with 2,278 depressed counties.