

Jonathan Schechter – “Corpus Callosum” Column
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An economic era has just ended in Jackson Hole, one driven by conspicuous consumption.

To put its passing in context, we first need to understand the four generations of Jackson Hole’s economic history.

For centuries, Jackson Hole’s economy was truly seasonal – hunters and trappers following animals migrating through the valley.

With the arrival of the first year-round residents in the 1880s, our hunter-gatherer economy began evolving into its second generation, an agricultural economy eventually augmented by summer tourism.

By 1960, this second generation economy was stagnant. In response, the community doubled-down on tourism by supporting the development of the Jackson Hole Ski Area. This ushered in our third economic generation, industrial tourism. Industrial tourism took off in the late-1960s and drove our economy until the early 1980s. By the mid-80s, however, industrial tourism had run out of steam, a reality which even heroic efforts like the bed tax could not change.

Rather than wither away, though, we became the beneficiaries of a combination of good luck, circumstances beyond our control, and the conservation efforts of our forebears. In particular, around two decades ago we stumbled into our fourth economic generation, the lifestyle economy which continues today.

The lifestyle economy came about due to changes in the economy, technology, transportation, and, critically, mores and values. Starting around 1990, it became increasingly easy and increasingly acceptable for people to work from anywhere they wanted. As this phenomenon took hold, more and more people who had vacationed in Jackson Hole found they could successfully live here. Locally, that led to our fourth generation lifestyle economy; locally and nationally, it metastasized into an addiction to conspicuous consumption. This is the era which just ended.

During the last 20 years, wealth grew, credit loosened, and consumption soared. One consequence was that America came to not just tolerate conspicuous consumption, but celebrate it. A collective frenzy overcame us, and we threw ridiculous amounts of money at anything we thought was unique or different or special. Happily, magically, Jackson Hole actually was all that, a singular combination of scenery, wildlife, sophistication, and small town ambience. As a result, America’s era of conspicuous consumption became Jackson Hole’s Gilded Age, a period during which we went from being a relative backwater to, on a per capita basis, the wealthiest county in the wealthiest nation the world has ever known.

As was the case nationally, during the last 20 years, Jackson Hole’s conspicuous consumption-based economy boomed. Real estate and construction, retail, restaurants and lodging, you name it – any business that could put a high price tag on something probably did all right.

That success also lifted local government revenues. Not as much as it should have, since most of our economy’s growth came in areas not covered by Wyoming’s increasingly inequitable and antiquated tax system. However, thanks to our Bay of Fundy-esque rising economic tide, even local government – that oldest and leakiest of boats – saw its revenues lifted to previously unimaginable levels.

No more though. As happened to our agriculture and industrial tourism economies, Jackson Hole’s era of conspicuous consumption is over. And boy, are we unprepared.

This doesn't mean our economy is about to completely crater; far from it. While certain sectors are clearly in for a rough go – real estate, construction, and general retail come to mind – overall, the economic downturn likely won't hurt us too terribly much.

There are four reasons for this. One is national: The federal government is pumping trillions into the economy, and all that money will inevitably have some effect.

The other three reasons are local:

1. We're rich, which will keep the locally-based element of our economy from sinking too far.
2. Our landscape and wildlife are unsurpassed, which will keep our tourism economy from sinking too far.
3. Demand for our homes will always exceed supply, which will keep our real estate market from sinking too far.

As a result, our overall economy shouldn't fall more than 10-15 percent from its all time peak. That will put us at 2005-2006 levels, something we felt pretty good about at the time.

Still, over the next few years our economy will undergo a fairly wrenching transformation. While the economy will still be rooted in fourth generation lifestyle activities, it will be a humbler lifestyle than we've recently experienced.

Why? There are four reasons for this as well. The first two are macro: the erosion of wealth, and the freezing of the credit markets. For individuals to spend in excess requires a lot of money, something we've enjoyed thanks to the significant rise in wealth over the last 20 years. For a culture to fetishize profligate spending requires even more money, something we've been able to do thanks to easy credit. However, neither of these pre-conditions exist any longer. Further, as they've crumbled they've also destroyed the sense of entitlement necessary to support a culture of conspicuous consumption.

The other two reasons are local: the effects of the recession on our local economy in general, and on our construction economy in particular.

Because Teton County boomed during the wealth explosion, we're bound to suffer during the wealth implosion. Two related facts illustrate this point.

First, in 1990, 36 percent of Teton County residents' total income was from investments; in 2006, 58 percent was. Second, during that same time span, the Dow Jones Industrial Average and Teton County's per capita investment income both increased 4.7-fold.

Because roughly 3/5 of our collective income is linked to the declining financial markets, residents' spending – a big chunk of all local spending – must also start declining; actually, it already has. As it does, it will start eroding the rest of the economy; that too is already happening.

Especially hard hit will be construction, which accounts for about 1/6 of our non-investment economy. To date, the local construction industry has stayed pretty busy, thanks to projects launched during the last couple of years. However, as those jobs wrap up, there won't be many to take their place. When that happens, it won't be pretty – unemployment will soar, and we'll see a decline in construction-related spending and all its spin-offs.

But as bad as that will be, it's only half of the story. Why? Because not only is our construction industry going to slow down, it will never return to current levels. Why? Simple supply and demand: today, Teton County has far more construction capacity than it will ever again need.

Here's the math. According to Census data, Teton County constructed its 6,000th dwelling unit in the latter half of the 1980s. Today, we have around 12,000 units, a doubling in just 20 years.

Why focus on 6,000 units? Because planners estimate that, at build out, Teton County will have around 18,000 dwelling units, 6,000 more than today. After that, most new construction will involve in-fill and scrapes.

This begs a basic question: How long it will take to build those 6,000 units? We know the range – 20 to 80 years. We also know that, today, we have the capacity to build all 6,000 in 20 years. If it takes longer – a good bet given frozen credit markets and the crummy real estate market – the construction industry must inevitably shrink. And when it does, so too will the many ancillary industries which have flourished during our construction boom.

Big picture, we are entering into a new, humbler economic era in Jackson Hole. It will resemble the one just ending, in that it will still be a lifestyle-based economy. However, it will also be fundamentally different, in that the excesses we've witnessed, embraced, and been appalled by for the last two decades will be both fewer and lower in amplitude.

What exact form this new economic era will take is, of course, unclear. However, we do have an opportunity to shape that era, and do so in a way which can produce both economic and environmental prosperity. Getting to such a future will be the focus of my next column.