BUSINESS

Gray Nation: The Very Real Economic Dangers of an Aging America

DEREK THOMPSON MARCH 26, 2012

Two economists envision a scary -- and scarily realistic -- future where the working population expands slower and slower, and jobless recoveries are the only recoveries we know

Reuters

In the future, U.S. growth will be slower. Recessions will be deeper. Recoveries will be weaker. And there's exactly one thing to blame.

Demographics.

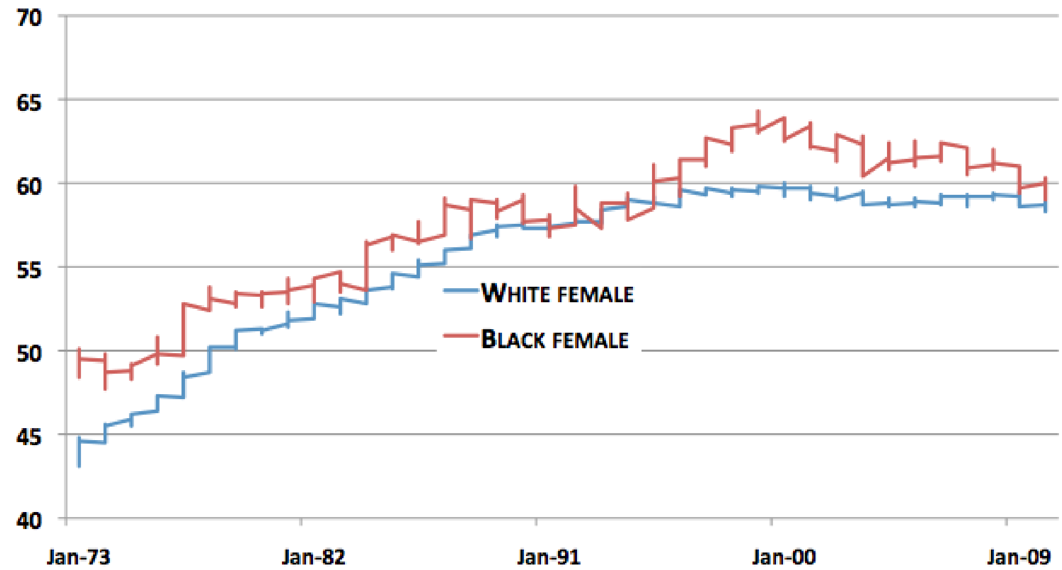
That's the stark conclusion from James Stock and Mark Watson in this fascinating, and occasionally depressing, new paper. In fact, they say, the future is now. For the last few years, we've weathered the beginning of what demographers have called the *grey tsunami*. "Most of the slow recovery [in today's job market] is attributable to a long-term slowdown in trend employment growth," Stock and Watson write.

The authors blame two demographic demons for our uncertain future: (1) the plateau in the female labor force participation rate, and (2) the aging of the U.S. workforce. Their underlying logic is that without continued growth in female workers or a significant boost in population, employment and GDP growth will slow, leaving us vulnerable to recessions with "steeper declines and slower recoveries." In such a future, jobless recoveries will be the only recoveries we know.

Demographic Demon #1
WOMEN'S PARTICIPATION RATE

In the first half of the 20th century, female employment wasn't exactly a high-priority concern for policy makers. For the first 20 years of the century, women didn't have the right to vote. For the next 30 years, they barely made up a fifth of the labor force. Then everything changed.

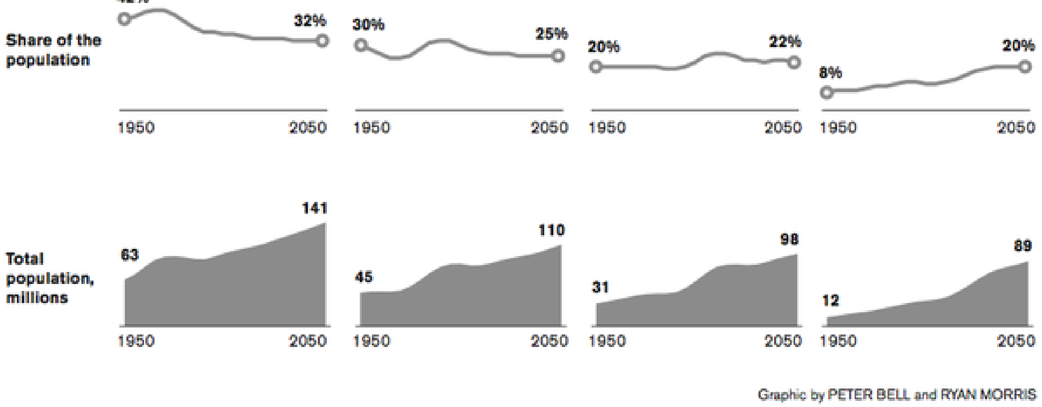
The ascendance of women in the workforce was perhaps the singular cultural/economic triumph of the second half of the 20th century. In 1960, just four in ten working-age women were active in the labor force. By 1990, it was more like six in ten (see graph below of female participation rates). By 2010, women made up a majority of the workforce. But that growth appears to have hit a ceiling. The female participation rate in early 2011 was the same as in 1994. In that time, the male participation has fallen. That's not good news for a country that will require more workers to both grow the national pot of money and provide for an aging population transitioning out of the workplace.



Demographic Demon #2
THE GRAYING OF AMERICA

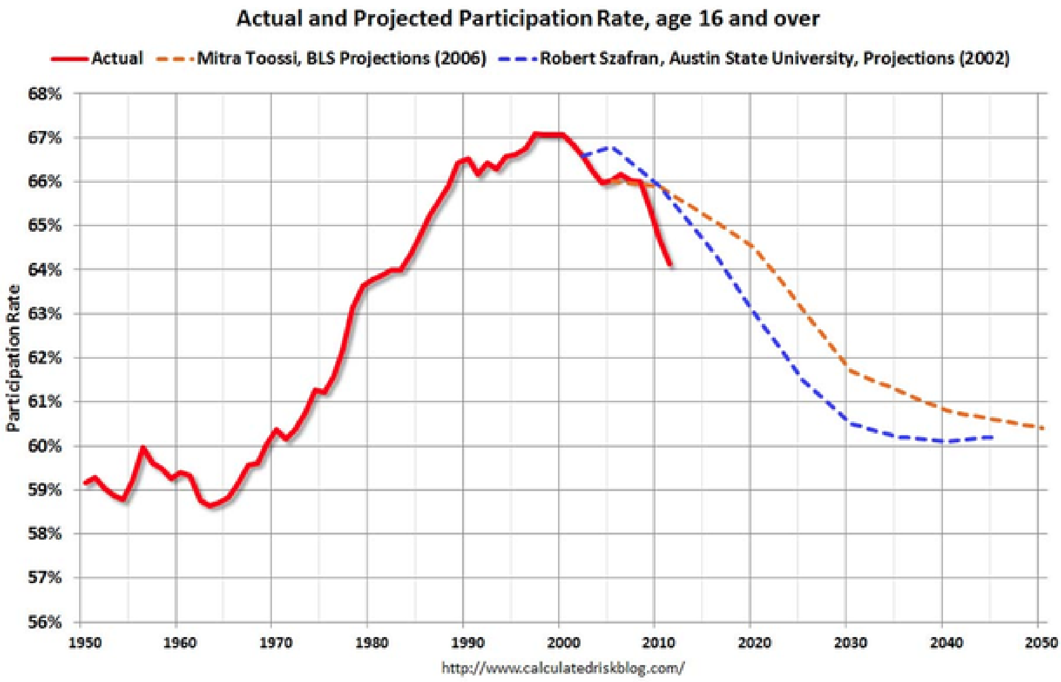
Famous economic worrywart Thomas Malthus famously predicted that population growth would get in the way of economic growth, because we wouldn't be able to make enough stuff to keep everybody healthy and happy. What's fascinating about the threat of a gray society is that it turns Malthusian pessimism on its head. In fact, the more reasonable threat we face is that an aging population will require more resources that can be -- and must be -- provided by more people.

Let's take the long view. In 1950, there were more Americans under 25 than over 45. By 2050, the share of seniors will nearly treble while the country's portion of twentysomethings will decline. Here's a look at 100 years of America aging, from a *National Journal/Atlantic* special report:



"People [used to take] dynamism and economic growth for granted and saw population growth as a problem," David Brooks wrote last week. "Now we've gone to the other extreme, and it's clear that young people are the scarce resource. In the 21st century, the U.S. could be the slowly aging leader of a rapidly aging world."

Here's another way to see what Brooks, Stock, and Watson are concerned about. In the late 1990s, a remarkable 67% of the country (16 and over) was working or seeking work. That number has fallen steadily in the last decade for two reasons. First, there's the Great Recession, which pushed people out of the labor force. But as you can see in the graph below, demographers were already expected labor participation to decline due to demographics. As 80 million Boomers move into retirement, a smaller share of our population will be working ... and a rising share will be seeking increasingly expensive medical attention from the workforce that is left over. That adds up to a less dynamic economy.



Some of the implications of the Boomers' retirement are predictable. If medical inflation continues apace, either the government or families (or both) will face rising budget pressures to pay for increasingly expensive treatments. As retirees live longer, Social Security will have to be mildly reformed or else we'll have to dip into general tax funds to fulfill our promise to seniors. One hopes that the transition to a service economy will allow older people to work longer than they have in the past. But one of the advantage of being old and affluent is that you don't have to work until the day you die. Sixty- and seventy-somethings who can work desk jobs might choose not to.

The aging of the Baby Boomers could have more unpredictable effects, too. Various studies have attributed stock booms in 1980s and 1990s "to the fact that baby boomers were entering their middle ages, the prime period for accumulating financial assets," the San Francisco Federal Reserve reported. If those studies are right -- and if demographic changes aren't already priced into the stock market -- it implies that we could see worse equity performance coinciding with an unfavorable worker-retiree ratio and slower economic growth. Not a good formula for the future.

DON'T WORRY, BE ... PROACTIVE

The fact that the United States is getting older is good news. Longer lives are good news. Healthier people are good news. Declining child mortality rates and a modern post-industrial service economy requires smaller families and fewer children are also good news. But this kind of affluence has a price.

Two centuries ago, Malthus predicted that growing populations would act as a tax on growing economies. In fact, the opposite might be true. Stagnating populations are taxing economic growth in rich economies , and we're only beginning to feel the implication of a historic graying of affluent nations. The United States got rich off young workers. Transfers to the old and sick might be the necessary price of a wealthy modern society. But too many of those transfers from the pockets of too few workers isn't a smart plan for growth.

If the most significant barrier to growth is our supply of workers, there are low-hanging solutions to creating more working Americans. One solution would be to reform immigration laws to let smart foreigners stay here after they graduate from college. Another would be to reform housing policy in our most high-productivity metros to encourage more people to cluster around our most successful industries. Another would be to allow innovations in K-12 and higher education to bring down the cost of school and the implicit cost of having children. Another might be to reform our corporate income tax laws to encourage more foreigners to start businesses here. Another would be to cure medical inflation to reduce the financial burden of caring for older Americans. This is all much easier typed than done. The upshot is that demographics can be dangerous, but they aren't destiny.

>

We want to hear what you think about this article. Submit a letter to the editor or write to letters@theatlantic.com.