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## THE DEMOGRAPHIC THREAT TO AMERICA'S JOBS BOOM

*As fertility falls and immigration tightens, the U.S. is losing its demographic advantage over other countries*

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The U.S. job market continues to blow through expectations, generating 200,000 new jobs month after month and driving unemployment far below what economists thought a decade ago was the lowest possible level.

The main reason is that the economy tends to keep creating jobs until interrupted by a recession. The current expansion has now lasted a record 10-plus years. So long as the usual recession triggers – rising inflation and interest rates, or financial excess – remain absent, job creation should continue.

Yet eventually it will hit a constraint: The U.S. will run out of people to join the workforce. Indeed, this bright cyclical picture for the labor market is on a collision course with a dimming demographic outlook. While jobs are growing faster than expected, population is growing more slowly. In July of last year, the U.S. population stood at 327 million, 2.1 million fewer than the Census Bureau predicted in 2014 and 7.8 million fewer than it predicted in 2008. (Figures for 2019 will be released at the end of the month.)

The U.S. fertility rate – the number of children each woman can be expected to have over her lifetime – has dropped from 2.1 in 2007 to 1.7 in 2018, the lowest on record. From 2010 through 2018, there were 3 million fewer births and 171,000 more deaths than the Census Bureau had projected in 2008. Death rates, already rising because the population is older, have been pressured further by “deaths of despair” – suicide, drug overdoses and alcohol-related illness.

Aging doesn't spell economic doom: Germany's population is flat and Japan's is falling, yet both boast lower unemployment than the U.S. But in the long run, job creation is constrained by the number of people of working age, which is why the International Monetary Fund puts Germany's long-run growth rate at 1.3 percent and Japan's at 0.6 percent, both lower than the U.S. at 1.9 percent.

The latest employment data underscore these dynamics. In the 12 months through November, the number of people working rose 1.2 percent from the prior 12 months, according to the Labor Department. That was slightly faster than 1 percent growth of the labor force – the number of people working or looking for work – and thus the unemployment rate fell. Labor-force growth was in turn faster than the 0.6 percent growth in the working-age population. As a result, the share of working-age people who are in the labor force, known as the labor-force participation rate, rose.

Unemployment is already as low, and possibly lower, as many economists think can be sustained in the long run.

While the participation rate, at 63.2 percent, is lower than its 1990s peak of 67 percent, Stephanie Aaronson, head of economic studies at the Brookings Institution, said most of the

decline is demographic and won't easily reverse. More of the working-age population is over 60 and has thus retired – or will soon.

Young adults are staying in school longer. Participation of prime-age women, those aged 25 to 54, is already back to historic highs. The participation of prime-age men, especially those without a college education, has been trending down for decades. Low unemployment could keep drawing people into the labor market and maintain participation over 63 percent, but she doubts it can go higher without big changes in government policies.

The U.S. has had two longstanding demographic advantages over other countries: higher fertility and immigration. Both are eroding. Since 2008, the U.S. fertility rate has gone from well above to roughly in line with the average for the Organization for Economic Cooperation and Development, a group of 36 mostly developed economies.

Mark Mather, a demographer at the Population Reference Bureau, said analysts initially blamed the drop in births on the recession, and expected it to bounce back as people felt more economically secure. In fact, he says it started before the recession as young adults delayed marriage and children, which will likely result in fewer children over their lifetimes. "We don't expect to see a bounce back any time soon."

Meanwhile, the inflow of foreign migrants to the U.S. has been trending flat to lower, while trending flat to higher in other countries. Last year, the foreign-born population expanded by a historically low 200,000, according to the Census Bureau. The exact reasons are unclear. The illegal immigrant population had stopped growing before President Trump took office. Legal immigration remained above 1 million through 2018.

Mr. Trump has proposed keeping legal immigration levels constant, while shifting the composition more toward skills and away from family reunification. But that still implies a declining rate of immigration relative to overall population. And his administration has moved to discourage some legal immigration, such as those who might need federal benefits.

Demographic trends aren't etched in stone. Japanese labor-force participation, in particular by the elderly, has risen in recent years and German fertility is on the rise, though still quite low. A prolonged expansion could have similar effects in the U.S., and indeed there is some evidence fertility stabilized this year. Political cooperation could one day pave the way to more immigration.

But until then the U.S. cannot assume it is immune to the demographic downdraft holding back Germany and Japan.