

## Mitchell's Musings 6-11-12: The Coming Labor Shortage? Let's Not Get Too Excited

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Pretty much everyone knows that a key demographic trend is that the population and the workforce are getting older. Most notable in that regard is the bulge in the population called the baby boom, roughly those individuals born after World War II and into the early 1960s. As the table below shows, the initial effect of the boomers was to drop the median age of the labor force during the 1970s.<sup>1</sup> Thereafter, the workforce began to age. By 2011, the first of the boomers reached 65. Some persons in that first wave had already retired; others had yet to retire. By around 2030 (the precise date depends on what year in the early 1960s you want to cut off the definition of the boomers), the last wave will reach 65. Some of them will have retired; others will continue working.

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Median Age of the Labor Force (Years)					
1962	40.5		1990	36.4	2020* 42.8
1970	39.0		2000	39.3	
1980	34.6		2010	41.7	*Projection

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Source: See footnote 1.

The aging of the boomer bulge in population is obviously a significant force, particularly with regard to health care costs, retirement income mechanisms, and politics. But how much significance will it have for the labor market at the macro level? The first thing to note is that the aging of the baby boom is predictable to a far greater degree than, say, the ups and downs of the business cycle, oil prices, or wars and conflicts. In particular, employers at the micro level are as aware as anyone else that aging is occurring within the workforce. If they see a need to do so, they can adapt their workplace practices to encourage aging boomers to stay or to leave. They can create arrangements for phased retirement (or not). No single employer has to follow any particular policy and no single employer's workforce will exactly mirror the overall labor force. However, the key point is that what is happening is slow, steady, and predictable.

There is, nonetheless, a tendency to seek some shock value out of this predictable process in the popular media. What better way to do so – in an era of high unemployment – than to predict that as boomers age out of the labor force, a labor shortage is on the horizon? Sure enough, a few days ago an item entitled “Get Ready for the Labor Shortage” popped into view as I was perusing some news stories.<sup>2</sup> The theme in part is that the boomers will be exiting the labor market and employers won't be able to replace them.

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<sup>1</sup> <http://www.bls/mlr/1995/11/art3full.pdf> (p. 40); <http://www.bls.gov/opub/mlr/2002/05/aart2full.pdf> (p. 26); <http://www.bls.gov/opub/mlr/2012/01/art3full.pdf> (p. 61).

<sup>2</sup> <http://business-news.thestreet.com/daily-news/story/get-ready-for-the-labor-shortage/11569255>.

We've actually been there before with this story, albeit in mirror image format. During the 1970s, an era known for episodes of "stagflation" (slow growth, unemployment, and inflation), there was speculation as to whether the flood of boomers into the labor market had led to a labor surplus. During those years, there were in fact wide swings in unemployment including a sharp recession in the middle of that decade. Various studies looked at the degree to which the youthful surge of boomers into the market might be causing the unemployment rate to rise.

One study, which examined that issue in retrospect from the vantage point of the early 1990s, standardized the age composition of the labor force and then looked at how the youth bulge might have raised the unemployment rate. Youths tend to have higher rates than older workers for a variety of reasons. They have fewer dependents to support and so don't have as strong a labor force attachment as others. And they are engaged in a process of trying to find the right job "match" that works for them and their employer which inevitably entails a degree of turnover. But how much did the age composition matter?

During the 1970s, the entering boomers appeared to raise the unemployment rate by a little over 0.6 percentage points. During the 1980s, as the boomers matured into careers of greater stability, their impact swung in the other direction to a little under -0.5 percentage points in absolute terms.<sup>3</sup> So the overall swing in the unemployment rate of baby boom entrance and maturation was a little over one percentage point, as the table below illustrates. And the swing was gradual, occurring first as unemployment-raising and then as unemployment-lowering over a two-decade period. In the era of boomer entrance and then maturation, there were periods of labor shortage (late 1960s, late 1980s) and labor surplus (mid 1970s, early 1980s). The shift between surplus and shortage was mainly a business cycle phenomenon, not a matter of demographics.

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**Impact of Changing Demographic Weights on the Unemployment Rate  
Relative to 1959 Weights (Percentage Points)**

1959	0.00		1979	0.62
1969	0.35		1989	-0.46

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**Source: See footnote 3.**

That pattern will be true going forward as the baby boom departs from the labor force, just as it was when it entered and matured. To predict that at *some point* in the future, there will be a labor shortage is not saying much at all, unless you believe the economy will never recover from its current doldrums and that there will never be another period of economic prosperity. To say that the cause of that labor shortage, whenever it comes, will be the aging of the baby boom contradicts the history of the boomers.

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<sup>3</sup> <http://stat.bls.gov/mlr/1990/08/art1full.pdf> (pp. 4, 6).