

By Simon Constable



Baby Boom to Baby Bust



The developed world faces a dilemma: Birth rates in the United States and Western Europe are steadily dropping. In fact, nearly half of the globe's population now live in countries where deaths outstrip births. Add to that the mass retirement of baby boomers underway and the tragedy of millions of COVID-19 deaths, and suddenly the workforce is shrinking rather than expanding. Some places, including Japan and Germany, already face imminent labor shortages. "Right now, you have this huge exit," says Neil Howe, managing director of demography at Hedgeye Risk Management.

While overpopulation creates its own host of problems, the challenge of fewer workers is particularly worrisome as executives strategize how to meet consumer demands and keep operations moving smoothly as the pandemic era presses on. But there may be answers if we turn our heads from the future briefly to consider the past. It isn't widely known, but an entire country found ways to thrive after

the radical population transformation that followed World War II, says David Ranson, director of research at the investment research firm HCWE & Co. After losing 8.8 million citizens, roughly 13 percent of the population, West Germany confronted a massive shortage of prime working-age people. The United Kingdom, on the other hand, lost just 1 percent of its population. Yet Germany's economy did far better. In fact, says Ranson, "Germany's growth rate after the war was tremendous." West Germany's annual growth from 1950 to 1960 averaged close to 8 percent, versus the UK's less than 3 percent. Over the following decade, Germany only continued to outpace its neighbor.

Attracting labor of all ages was helped by the healthy growth in inflation-adjusted German wages, which jumped 19 percent each year between 1948 and 1952. Higher wages typically attract more workers, a truth likely to hold steady today. Particularly as people are living longer and healthier, it may just be a matter of enticement. "I don't believe in the usual assumption that every older person just leaves the workforce," Ranson says.

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Another key element in Germany's past success—and likely that of many countries in the future—is innovation. Postwar Germany needed to dismantle its war machine. Out went armaments, in came consumer goods. For instance, BMW pivoted from making aircraft engines to producing cars, harnessing its savvy engineers. Investment in national technical education helped improve intellectual capacity. Currently, companies running short of workers will likely buy labor-saving technology. We're already

that businesses will likely need to ditch the long-standing practice of encouraging retirement at 65. That's already happening in industries where skilled labor is scarce. (The US Labor Department projects that those 65 and over are likely to increase their workforce participation.)

Immigration will also play a factor in reshaping the economy. "The US workforce growth would be negative if it wasn't for immigration," Howe says. In 2020, the country's population grew 0.6 percent, down from 1.3 percent in 1950.

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seeing some fast-food restaurants installing machines that can take orders and cook meals. Likewise, mortgage lenders are increasingly relying on algorithms to value properties rather than sending people. Warehouse jobs are fast being taken over by robots. The key for companies will be to make sure that fewer minds does not equal fewer ideas, so putting greater focus on innovation.

Meanwhile, some experts say that increased reliance on automation will reinforce demand for veteran workers. "That living history definitely strengthens one's managerial capacities," says Bob Bruner, a senior fellow at the Miller Center of Public Affairs at the University of Virginia, adding

And without immigration, last year's population growth would have been half of what it was. Continuing on the same trajectory, the US and other developed countries will need even more immigration to prevent population decline. And there's the rub: when one country bolsters its population from immigration, it means another is deflating.

Of course, fewer people isn't all bad. That's less pressure on natural resources and, hence, a decline in environmental degradation. Fewer babies also reflects more freedom for women. As Ranson sees it, the capitalist system "responds to these pressures and constraints and shortages." And history might just support this confidence. ▮

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