

The Aging of America: Impacts on the Marketplace and Workplace

*Theodore M. Crone**

With the dramatic changes the world has been witnessing, no one can really fault economic forecasters for being cautious in their 10-year outlooks these days. Nonetheless, the year 2000 still provides an inviting target for economic forecasts. And a horizon of 10 years is not too long for a business plan.

Fortunately, two important ingredients in

any long-term forecast—the size and age distribution of the population—can be projected fairly accurately. These projections automatically give us some idea of what the marketplace and workplace will look like in the next 10 years. After all, the people who will make up the entire working and spending population by the year 2000 have already been born.

Official projections point to slower population and labor force growth both for the nation and for the three states in the Third Federal Reserve District—Pennsylvania, New Jersey, and Delaware. These slower growth rates will

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change the business environment in significant ways. The baby boom and the drop in births that followed will influence how many part-time workers will be available, how many of us will retire, how productive we will be, how much of our income we will save, and how many new houses and new cars we will buy.

POPULATION GROWTH WILL SLOW IN THE 1990s

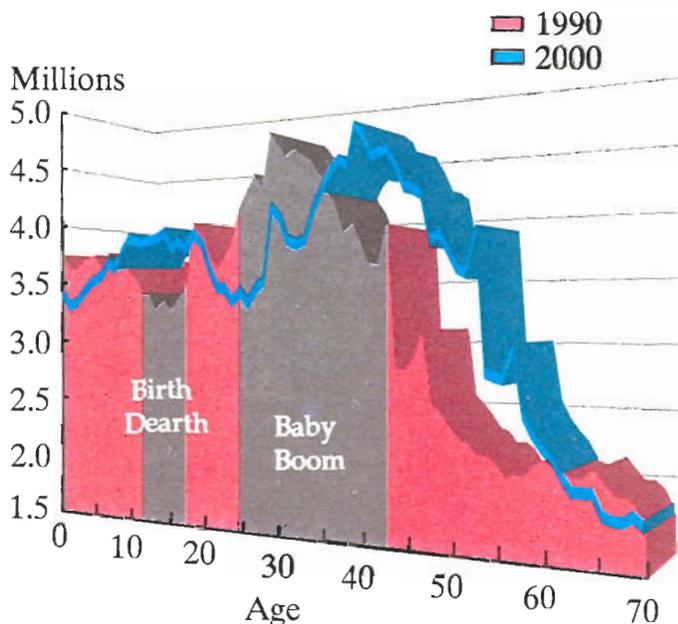
The growth rates of the population and the labor force have largely been determined by two periods of unusual birth rates in the years since World War II.¹ The first was the familiar “baby boom” era between 1946 and 1964, when births in the U.S. averaged more than 4 million a year. The second period was the less familiar “birth dearth” era between 1972 and 1978, when the average number of births dropped to 3.2 million annually—800,000 fewer births a year than in the baby-boom years.

Movement of the baby-boom and birth-dearth generations through their life cycles will change the age distribution of the population significantly over the next 10 years. The baby-

boomers, most of whom are now in their 30s, will move into their 40s. The birth-dearth babies, most of whom are now teenagers, will move into their 20s. In fact, by the year 2000, 40-year-olds will outnumber 20-year-olds—a reverse of the current age distribution. (See Figure 1.)

This shift in the population’s profile will slow both population and labor force growth in the 1990s. Ages 15 to 44 are considered the child-bearing years, and in the United States most babies are born to women in their 20s. So with the baby-boomers no longer swelling the ranks of 30-year-olds, and with the birth dearth providing such a small number of 20-year-olds, birth rates are bound to drop. The number of births is projected to fall from the current 3.8 million per year to less than 3.4 million by the year 2000—a decline of 400,000 births per year. This projected decline will lower population growth from about 10.5 percent in the

**FIGURE 1
The Baby-Boom and Birth-Dearth Generations
Move Through Their Life Cycles**



¹Another important component of population change is net immigration. The U.S. Census Bureau projections used in this article assume continued legal immigration at recent historical levels and some decline in illegal immigration. So any major change in immigration policy would alter these projections.

1980s to only 7.1 percent in the 1990s.

But it is not just total population growth that is important for the economy. The different growth rates for various age groups will have far-reaching effects—on the marketplace and the workplace—in the 1990s.

CHANGES IN THE MARKETPLACE

With a more slowly growing population will come slower growth in the demand for consumer goods and services. In addition, most of the baby-boomers will be entering the 45-to-64 age group—the years in which Americans traditionally save more.² Thus, over the next decade, the average person will be saving more income and spending less.

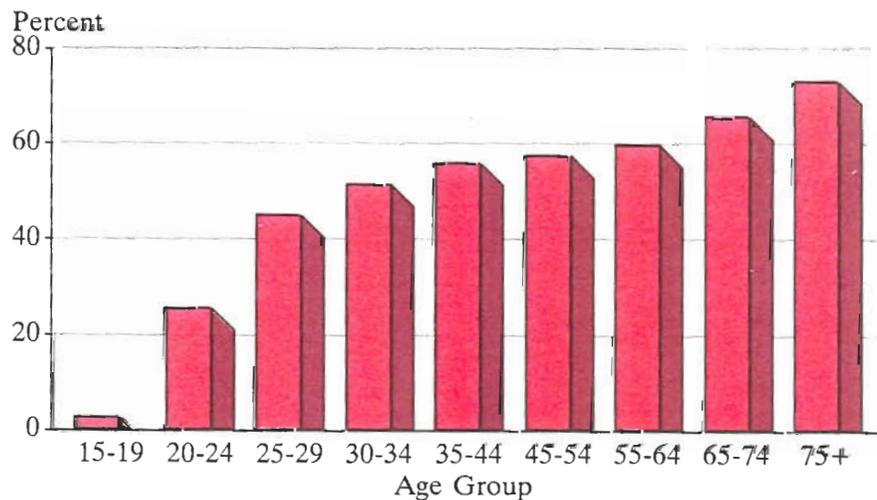
Of course, the slowdown will not have the same impact on all markets. Two important sectors, housing and autos—which are the largest purchases for most households—will fare differently.

Housing Will Be Hit. Some segments of the housing market will definitely feel the pinch. The fewer births that followed the baby boom mean that there will be fewer people in their 20s—the age at which most people initially form households, either as an individ-

ual or the head of a family. (See Figure 2.) At the same time, most people tend to buy and furnish their first home between the ages of 25 and 34, and the last of the baby-boomers will be moving out of this age category. Fewer new households and fewer first-time home buyers will severely limit the need for new rental housing and starter homes. Developers will likely concentrate on building higher-priced units for the trade-up market.

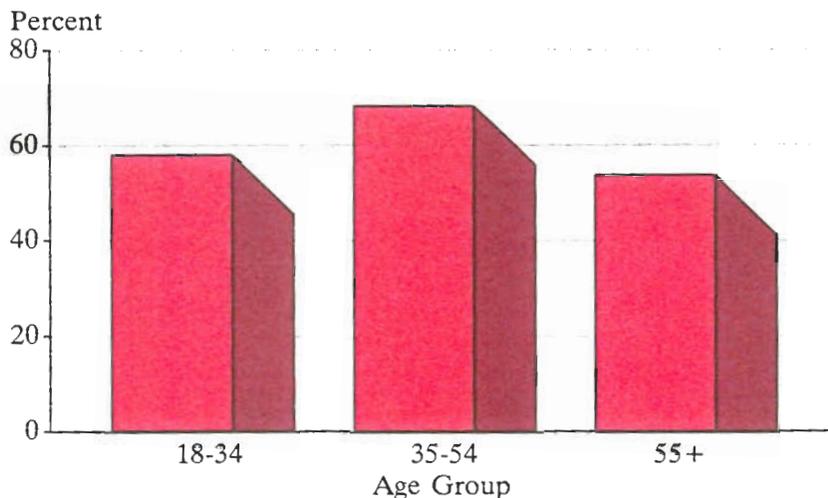
Auto Buying Should Increase. The older, more slowly growing population is likely to affect the auto market more positively. Two major trends are emerging, but they are moving in different directions. The birth dearth will reduce growth in the prime driving-age population to only half that of the 1980s. But the aging baby-boomers will keep the growth of people in their peak new-car-buying years, 35 to 54, at nearly the pace of the last 10 years. On net, Americans should be buying more cars

FIGURE 2
By Their Late 20s, Many People Are Already Heading Households



²See Stephen A. Meyer, "The U.S. as a Debtor Country: Causes, Prospects, and Policy Implications," this *Business Review* (November/December 1989) pp. 19-31.

FIGURE 3
People in Their Middle Years
Buy the Most Cars



in the year 2000 than they are now, but dealers will be marketing to an older customer. (See Figure 3.)

A NEW LOOK FOR THE LABOR FORCE

Besides challenging businesses to find their niche in slow-growing markets, the changing demographics will present firms with still another problem: finding enough workers to produce the goods.

Because fewer Americans will be seeking first-time jobs, the overall pool of available workers will grow more slowly. Labor force growth will be the slowest in 50 years, falling from an annual rate of 1.6 percent a year in the 1980s to 1.2 percent per year in the 1990s.

Most Americans enter the labor force in their late teens or early 20s. However, the number of young people between the ages of 16 and 24 has actually been shrinking since 1980 and will continue to fall through the mid-

1990s. Even with projected population increases in the final years of the decade, there will only be about as many young Americans at the turn of the century as there are now.

As the Number of Young Workers Declines... The declining number of young people is making it harder for employers to find qualified persons for entry-level jobs. Even more difficult to fill are part-time positions. Over a third of all part-time workers

are 16 to 24 years old. Retailers, in particular, are being hit hard by the shortfall in part-time workers, since a third of all retail workers are part-time.³

There is one piece of good news in this shrinking young labor force: unemployment among young people is falling. Compared to other age groups, the 16-to-24 category has traditionally had the highest unemployment rate. As the population in this age group has declined, so has the group's unemployment rate. This trend should continue through the rest of the century.

³About 40 percent of the new positions in retail trade between 1973 and 1985 were part-time. See Steven E. Haugen, "The Employment Expansion in Retail Trade, 1973-85," *Monthly Labor Review* (August 1986) pp. 9-16. See also Thomas J. Nardone, "Part-time Workers: Who Are They?" *Monthly Labor Review* (February 1986) pp. 13-19.

...The Number of Older, More Productive Workers Will Increase. The changing demographics won't just affect the labor force at the entry level. It will leave its stamp on the prime-working-age population, as well. This group encompasses those between 25 and 54—the age groups in which most people have fully entered the labor market and have not yet begun to retire in large numbers.

Because of the decline in births after the mid-1960s, the youngest members of the prime-working-age group, those 25 to 34, will decline in number. But because the baby-boomers are aging, the oldest prime-age workers, those 45 to 54, will increase more than 40 percent. This maturation of the prime-age labor force should be positive for productivity, since work experience is generally thought to increase productivity. Studies undertaken by the Bureau of Labor Statistics in the 1950s and 1960s suggest that productivity peaks at about age 35; more recent research suggests that it continues to increase until about age 45. In both cases, however, it was found that when productivity declines, it does so rather slowly until after age 55.⁴ On balance, the 1990s should see a pickup in the growth of labor productivity, which has been slow in recent years.

Participation Rates for Prime-Age Workers Will Be High. Businesses trying to find workers for entry-level jobs might be tempted to look beyond the diminishing 16-to-24 age group to the older, more productive workers. But increasing the pool of available workers won't be easy. The labor force participation rate—the percentage of the labor force that either has a job or is looking for one—is already quite high among the prime-working-age population.

⁴See Mary Jablonski, Kent Kunze, and Larry Rosenblum, "Productivity, Age, and Labor Composition in the U.S. Work Force," in *The Aging of the American Work Force: Problems, Programs, Policies*, Wayne State University Press (forthcoming).

Labor force participation by men between 25 and 54 is greater than 90 percent. The rate for women in this age group is about 74 percent, up considerably from 1979's rate of 62 percent. Although we are unlikely to see such a large increase in the 1990s, the effort to attract more women into the job market is expected to raise the participation rate for prime-working-age women to more than 80 percent by the year 2000. This increased participation accounts for one-fourth of the projected annual growth of the labor force in the next 10 years.⁵

Businesses May Seek Retirement-Age Workers. Besides trying to lure new participants into the labor force, businesses might want to think about the opportunities inherent in hiring—or retaining—people of retirement age.

People normally think of 65 as the retirement age in the United States, partly because workers become eligible for full social security retirement benefits at that age. But men have shown a growing tendency to retire at an earlier age, and the labor force participation rate for men 55 to 64 has dropped substantially since 1970, down to less than 70 percent from more than 80 percent.⁶ Some of this decline has undoubtedly been due to the early-retirement provisions introduced into the social security system in the 1960s.

The 1983 amendments to the Social Security Act made a number of changes to the retirement provisions, such as reducing benefits for early retirement, raising the age for full retirement benefits to 67, and gradually increasing the credit for delaying retirement. Eventually,

⁵See Howard N. Fullerton, Jr., "New Labor Force Projections, Spanning 1988 to 2000," *Monthly Labor Review* 112 (November 1989) pp. 3-12.

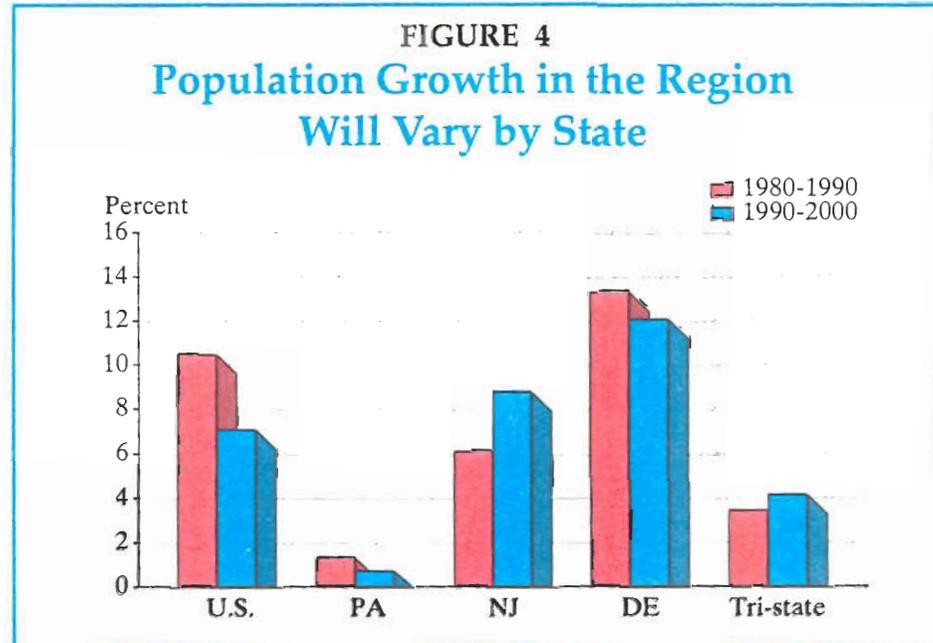
⁶See William E. Cullison, "The Changing Labor Force: Some Provocative Findings," *Federal Reserve Bank of Richmond Economic Review* (September/October 1989), pp. 30-36.

these changes are expected to delay retirement and increase the labor force participation of older Americans.⁷ But except for some increase in the delayed-retirement credit, none of the changes will take effect before the year 2000 and their impact on labor force participation in the 1990s will consequently be minimal.

Private-sector incentives will have to provide the major impetus to keep older Americans in the work force in the 1990s. Companies have made some attempts to lure older workers back into the labor force, at least on a part-time basis, to relieve the shortage of young entrants. How successful these attempts will be remains to be seen. Even if they are successful, the pool of retirement-age Americans most likely to continue working will become progressively smaller. Population in the age group 65 to 69 is expected to decline nationwide over the decade, then rise again after the turn of the century.

THE REGIONAL OUTLOOK

The degree to which firms in the Third Federal Reserve District will be affected by national



trends depends on their location in the district. Population growth in the 1990s for Pennsylvania, New Jersey, and Delaware combined will be much slower than the national rate. But population and labor force growth in the tri-state region will be very uneven.

Delaware's population growth will slow somewhat in the 1990s and New Jersey's will pick up. It is Pennsylvania, where population growth will slow to a mere 0.7 percent, that will pull tri-state growth below the national average.⁸ (See Figure 4.)

A Look at Growth by County. But even within states there is diversity. Each contains an interesting mix of fast- and slow-growing areas.

⁷For the details of these changes, see John A. Svahn and Mary Ross, "Social Security Amendments of 1983: Legislative History and Summary of Provisions," *Social Security Bulletin* 46 (July 1983) pp. 3-48. For estimates of the effects, see Gary S. Fields and Olivia S. Mitchell, "The Effects of Social Security Changes on Retirement Ages and Retirement Incomes," *Journal of Public Economics* 25 (1984) pp. 143-59, and Alan L. Gustman and Thomas L. Steinmeier, "The 1983 Social Security Reforms and Labor Supply Adjustments of Older Individuals in the Long Run," *Journal of Labor Economics* 3 (1985) pp. 237-53.

⁸This growth rate is calculated from projections by the Pennsylvania State Data Center. U.S. Census Bureau projections call for a 2.7 percent decline in Pennsylvania's population over the decade (see *Projections of the Population of States by Age, Sex, and Race: 1988 to 2010*, Current Population Reports, Series P-25, No. 1017, 1988), but that projection seems too low. In fact, the Census Bureau projection for 1990 would demand a 1.8 percent decline of Pennsylvania's population from the 1989 estimate, even though state population has been growing in the past few years.

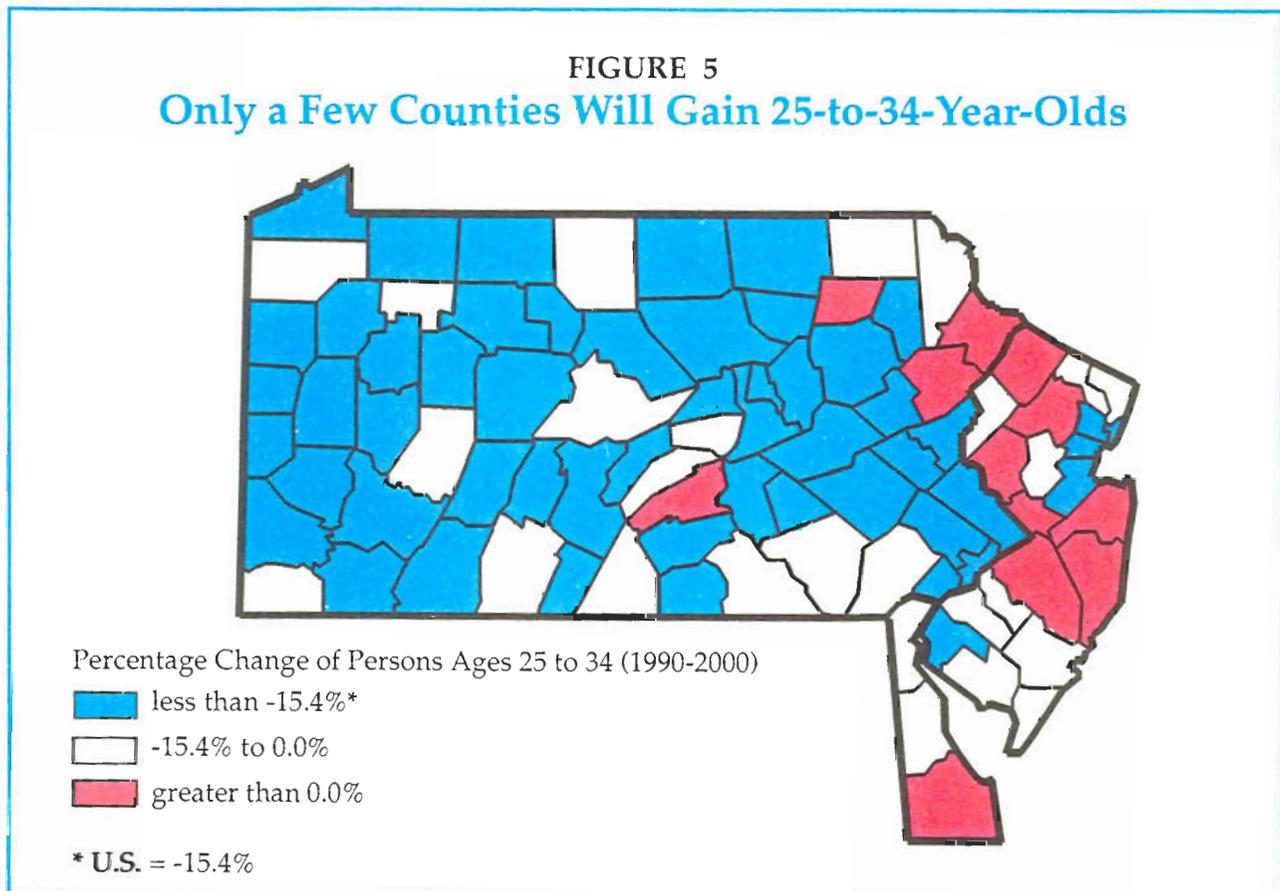
While many counties in western and northern Pennsylvania will continue to lose population, several in the southeast and northeast sections should either match or outpace the national average. The winners include some southeastern counties like Chester, Lancaster, and York, where employment growth has been strong and unemployment rates low in recent years, and some northernmost counties like Pike, Wayne, and Monroe, which are growing because of in-migration from northern New Jersey and suburbanization in northeast Pennsylvania. The Pennsylvania counties expected to lose population include some with large central cities affected by continued suburbanization, such as Allegheny and Philadelphia, and some that have been experiencing high unemployment rates, such as Beaver, Cambria, and Blair.

In New Jersey and Delaware no county is

projected to lose population in the 1990s. However, the New Jersey counties in the New York City area are expected to grow much more slowly than the national average.

The Regional Marketplace. For the regional marketplace, changing demographics will be a mixed bag. Most parts of the region can expect declines in the 25-to-34 age group, which includes most first-time home buyers. Only 12 counties can expect any increase in this age group. In fact, many counties, mostly in Pennsylvania but a few in New Jersey, will see large declines. People seeking to trade up from starter homes in these counties will find a considerably smaller pool of potential home buyers. (See Figure 5.)

As is true nationally, the shifting demographics should favor auto markets in the region. Even though the prime driving-age population will be growing more slowly, the



Growth in the Philadelphia Metropolitan Area

Five of the eight counties that make up the Philadelphia metropolitan area should see population growth that exceeds the national average in the 1990s: Chester and Bucks in Pennsylvania, and Burlington, Camden, and Gloucester in New Jersey.^a But Philadelphia County (that is, the City of Philadelphia itself) still accounts for one-third of the metro area's population, and continued losses in the city will keep the area from growing as fast as the nation.

The area's housing market, like the nation's, will be affected by the shifting age distribution of the population. Every county in the metropolitan area is expected to experience declines in the number of persons in the primary household-formation years (20 to 29), and most counties will see a drop in the population of first-time home buyers (25 to 34).

In the Philadelphia metro area, the number of young working-age people between the ages of 16 and 24 will fall a staggering 10.2 percent in the 1990s—and all of that decline is expected to occur in the first half of the decade. Meanwhile, the prime working-age group (25 to 54) will increase 10.2 percent in the 1990s, matching the increase at the national level. The net result will be a 4.9 percent increase in Philadelphia's working-age population, compared to an 8.9 percent gain for the nation.

Labor force growth in the 1990s will depend on what happens to the labor force participation rate. If the participation rate in Philadelphia remains below the national rate, Philadelphia's labor force growth will be considerably less than the nation's 1.2 percent annual rate. But we could see greater increases in the area's labor force if various age groups increase their participation rates.

Throughout the 1980s, participation rates in the Philadelphia area have been lower than in the nation and lower than in most other metropolitan areas.^b A relatively larger proportion of people 65 and over in the Philadelphia area explains some of the difference. But even adjusting for that proportion, the labor force participation rate in Philadelphia is low. Philadelphia-area teenagers, in particular, have a lower participation rate than the national average. If participation rates in the various age groups simply caught up to the projected participation rates for the U.S. in the year 2000, Philadelphia's labor force growth could be as fast as the nation's and only slightly slower than the area's 1.3 percent annual rate of the 1980s.

^aGrowth rates for the Philadelphia metropolitan area were derived from a consistent set of population projections for the metropolitan area spanning two states, prepared for the Delaware Valley Regional Planning Commission. See *Year 2010 Planning Process Population and Employment Forecasts: Addendum*, Delaware Valley Regional Planning Commission (DVRPC), November 1988. Mike Ontko of DVRPC has also given valuable assistance in identifying other sources of information for this article.

^bSee *Geographic Profile of Employment and Unemployment, 1988*, U.S. Department of Labor, Bureau of Labor Statistics, Bulletin 2327, May 1989. Only nine areas had lower participation rates than Philadelphia: Buffalo, NY; Detroit, MI; Fort Lauderdale, FL; Memphis, TN; New Orleans, LA; New York, NY; Pittsburgh, PA; Riverside, CA; and Tampa, FL.

age group that buys the most new cars will be growing even faster in the tri-state area during the 1990s than in the 1980s.

A Look at Labor Force Growth. As in the nation, the three states' total labor force will grow at a slower rate in the 1990s than in the

1980s. Even with the higher labor force participation rates projected, growth in the number of workers is expected to slow in the 1990s. But, again, there is diversity. Labor force growth in New Jersey will match the national rate, and in Delaware it will be slightly lower. But Pennsyl-

vania’s labor force growth, already slow, will drop to only 0.7 percent a year.

The drop in the number of young workers during the 1990s will be even more severe in the tri-state area than in the rest of the nation. Of the three states, only Delaware is expected to have more 16-to-24-year-olds in the year 2000 than today. (See Figure 6, p. 12.)

The decline in the number of people in their 20s is particularly bad news for the parts of the Third District faced with tight labor markets. Many counties in New Jersey, Delaware, and southeastern Pennsylvania are trying to attract

workers from other parts of the country by advertising nationally and conducting interviews in different parts of the country. Ordinarily, they would count on getting the biggest response from young people—those looking for their first full-time job or those in the early stages of their careers. Studies show that people are most likely to relocate when they are in their 20s. But the decline in this age group—along with other factors, such as the increased number of two-wage-earner households—will probably reduce long-distance migration in the 1990s. Thus, the shortage of young workers

The Labor Force Will Grow More Slowly in the 1990s

	Annual Growth Rate of the Labor Force	
	1979:4 to 1989:4 (actual)	1989:4 to mid-2000 ^a (projected)
United States ^b	1.6	1.2
Pennsylvania ^c	0.9	0.7
New Jersey ^d	1.2	1.2
Delaware ^d	2.7	1.0
Tri-state	1.1	0.9

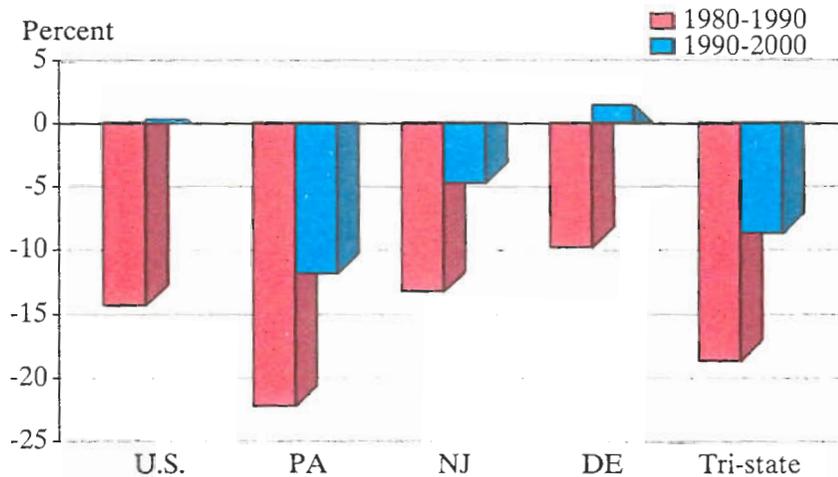
^aThe annual growth rates in this column are calculated from the total change for a period of 10 and a half years, since the latest available data are for the fourth quarter of 1989 and the projections are yearly averages for the year 2000.

^bThe Bureau of Labor Statistics has projected the labor force and participation rates by age group for the U.S. in the year 2000. See Howard N. Fullerton, Jr., “New Labor Force Projections, Spanning 1988 to 2000,” *Monthly Labor Review* 112 (November 1989) pp. 3-12. The BLS reports high, moderate, and low projections. The growth rates here are calculated from the moderate projections.

^cThe Pennsylvania State Data Center does not project the state’s labor force. The Pennsylvania Department of Labor and Industry in 1986 estimated the state’s labor force through the year 2000 using the Data Center’s population projections. See *Labor Market Trends Through the Year 2000: Pennsylvania Profile*, Pennsylvania Department of Labor and Industry, 1986. However, the State Data Center has revised its population projections since then, and the Department of Labor and Industry’s forecasts are clearly too low. The original estimate for the year 2000 would imply an annual growth rate of only 0.1 percent a year over the next decade. The U.S. Bureau of Labor Statistics has projected national labor force participation rates by five- or 10-year cohorts separately for men and women in the year 2000. The growth rates in this table were obtained by applying these age- and sex-specific participation rates to the latest projections of Pennsylvania’s population for the year 2000.

^dLabor force projections for New Jersey and Delaware are based on data from the N.J. Department of Labor and the Delaware Population Consortium (for details, see *About the Population Projections*, p. 13).

FIGURE 6
The Region's Young Working-Age Population Will Shrink



all three states will experience a decline in the age group 65 to 69. It will be more difficult in the tri-state region than in the nation generally to find older workers for positions normally taken by young workers.

CONCLUSION

Demographic trends will leave their mark on the American economy in the 1990s. The baby-boomers will be moving into their middle years, and the birth dearth of the 1970s will leave fewer young people

in many parts of the tri-state region is unlikely to be relieved by any large influx of workers from other areas.⁹

All three states will experience slowdowns in the growth of the prime-working-age population, ages 25 to 54. But as in the nation, the oldest segment of the region's working-age population, those 45 to 54, will expand about 40 percent or more. So the region will garner productivity gains from a maturing labor force.

And what of older workers over 55? In some parts of the tri-state area, efforts to increase the number of older workers will be hindered by little or no growth in this age group. The number of persons 55 to 64 is projected to decline in Pennsylvania over the decade. And

to take their place. In the marketplace, businesses will find the typical consumer a bit older and more likely to save a higher percentage of his income. Young people eager to buy their first home and fill it with furniture will be rarer.

In the workplace, baby-boomers will provide a large pool of mature, experienced workers. But as the birth dearth limits the number of new entrants to the labor force, growth in the overall size of the labor force will slow. Finding workers to fill entry-level positions will be particularly difficult.

To meet the challenge that relatively scarce labor creates, businesses will have to be innovative. Participation rates among men in their prime working years are about as high as they can go. But there is still room for the participation rate among women to increase. Firms are already offering flexible hours and improved day-care to make it easier for women to work outside the home. Businesses are also trying to

⁹For a study on the ages at which people tend to relocate, see Larry Long, *Migration and Residential Mobility in the United States* (New York: Russell Sage Foundation, 1988).

tap the pool of retirement-age people by aggressively advertising job opportunities and by offering more part-time work.

In the meantime, public officials can do their part to eliminate the structural problems that keep some people out of the labor force. For instance, they can support job-training programs for people who lack basic skills. And they can improve public-transportation networks to help urban residents get to jobs outside central cities.

For Pennsylvania, New Jersey, and Delaware—the three states in the Third Fed-

eral Reserve District—the 1990s will be exceptionally challenging. The population growth slowdown and dearth of young people will be even more severe here than in the nation as a whole. In the eight-county Philadelphia metropolitan area, overall population growth is expected to hold steady into the 1990s, but the young working-age population will actually decline. Only if Philadelphia's labor force participation rate rises to match the national rate can its labor force grow as rapidly as the rest of the nation's.

About the Population Projections

The Bureau of the Census has projected U.S. population by age for each year through 2080 and has made similar projections for each of the 50 states through the year 2010. National projections in this article were taken from the following Census Bureau publication:

- *Projections of the Population of the United States, by Age, Sex, and Race: 1988 to 2080*, by Gregory Spencer, U.S. Department of Commerce, Bureau of the Census, Current Population Reports, series P-25, No. 1018, 1989.

Most states also have at least one public agency that projects population at the state and county levels. Our tri-state area projections are based on the following sources:

- *Pennsylvania Population Projections: 1980 to 2000*, Pennsylvania State Data Center, The Pennsylvania State University at Harrisburg, January 1986.
- *Population and Labor Force Projections for New Jersey: 1990 to 2030*, Vol. I, State of New Jersey, Department of Labor, Labor Market and Demographic Research, February 1989.
- *Population Projections: 1988 Version*, Delaware Population Consortium, Dover, DE, January 1989.
- *Year 2010 Planning Process Population and Employment Forecasts: Addendum*, Delaware Valley Regional Planning Commission, November 1988.