Fear of economic blow as births drop around world

May 7 2014, by Bernard Condon

In this April 14, 2014 photo, preschool teacher Arene Galirza, left, a 4-year-old student color a rabbit-shaped paper cutout at Community Day Preschool of Garden Grove, in Garden Grove, Calif. According to the school's executive director Sue Puisis, the enrollment at the preschool has dropped by more than 50 percent since 2008. The financial crisis that followed the collapse of U.S. investment bank Lehman Brothers in 2008 sent birth rates tumbling around the world as couples found themselves too short of money or too fearful about their finances to have children. Six years later, birth rates haven't bounced back. (AP Photo/Jae C. Hong)

Nancy Strumwasser, a high school teacher from Mountain Lakes, New Jersey, always thought she'd have two children. But the layoffs that swept over the U.S. economy around the time her son was born six years ago helped change her mind. Though she and her husband, a market researcher, managed to keep their jobs, she fears they won't be so fortunate next time.

"After we had a kid in 2009, I thought, 'This is not happening again,'" says Strumwasser, 41, adding, "I never really felt comfortable about jobs, how solid they can be."

The financial crisis that followed the collapse of U.S. investment bank Lehman Brothers in 2008 did more than wipe out billions in wealth and millions of jobs. It also sent birth rates tumbling around the world as couples found themselves too short of money or too fearful about their finances to have children. Six years later, birth rates haven't bounced back.

For an overcrowded planet, this is good news. For the economy, not so good.

We tend to think economic growth comes from working harder and smarter. But economists attribute up to a third of it to more people joining the workforce each year than leaving it. The result is more producing, earning and spending.

Now this secret fuel of the economy, rarely missing and little noticed, is running out.

"For the first time since World War II, we're no longer getting a tailwind," says Russ Koesterich, chief investment strategist at Blackrock, the world's largest money manager. "You're going to create fewer jobs. ... All else equal, wage growth will be slower."

Births are falling in China, Japan, the United States, Germany, Italy and nearly all other European countries. Studies have shown that births drop when unemployment rises, such as during the Great Depression of the 1930s. Birth rates have fallen the most in some regions that were hardest hit by the financial crisis.

In the United States, three-quarters of people surveyed by Gallup last year said the main reason couples weren't having more children was a lack of money or fear of the economy.

The trend emerges as a key gauge of future economic health—the growth in the pool of potential workers, ages 20-64—is signaling trouble ahead. This labor pool had expanded for decades, thanks to the vast generation of baby boomers. Now the boomers are retiring, and there are barely enough new workers to replace them, let alone add to their numbers.

Growth in the working-age population has halted in developed countries overall. Even in France and the United Kingdom, with relatively healthy birth rates, growth in the labor pool has slowed dramatically. In Japan, Germany and Italy, the labor pool is shrinking.

"It's like health—you only realize it exists until you don't have it," says Alejandro Macarron Larumbe, managing director of Demographic Renaissance, a think tank in Madrid.

The drop in birth rates is rooted in the 1960s, when many women entered the workforce for the first time and couples decided to have smaller families. Births did begin rising in many countries in the new millennium. But then the financial crisis struck. Stocks and home values plummeted, blowing a hole in household finances, and tens of millions of people lost jobs. Many couples delayed having children or decided to have none at all.

Couples in the world's five biggest developed economies—the United States, Japan, Germany, France and the United Kingdom—had 350,000 fewer babies in 2012 than in 2008, a drop of nearly 5 percent. The United Nations forecasts that women in those countries will have an average 1.7 children in their lifetimes. Demographers say the fertility rate needs to reach 2.1 just to replace people dying and keep populations constant.

The effects on economies, personal wealth and living standards are far reaching:

— A return to "normal" growth is unlikely: Economic growth of 3 percent a year in developed countries, the average over four decades, had been considered a natural rate of expansion, sure to return once damage from the global downturn faded. But many economists argue that that pace can't be sustained without a surge of new workers. The Congressional Budget Office has estimated that the U.S. economy will grow 3 percent or so in each of the next three years, then slow to an average 2.3 percent for next eight years. The main reason: Not enough new workers.

— Reduced pay and lifestyles: Slower economic growth will limit wage gains and make it difficult for middle-class families to raise their living standards, and for those in poverty to escape it. One measure of living standards is already signaling trouble: Gross domestic product per capita—the value of goods and services a country produces per person—fell 1 percent in the five biggest developed countries from the start of 2008 through 2012, according to the World Bank.

— A drag on household wealth: Slower economic growth means companies will generate lower profits, thereby weighing down stock prices. And the share of people in the population at the age when they tend to invest in stocks and homes is set to fall, too. All else equal, that implies stagnant or lower values. Homes are the biggest source of wealth for most middle-class families.

Births might pick up again, of course. In France, where the government provides big subsidies and tax breaks for children, birth rates are back where they were in the early 1970s. In other countries, women who put off having children in the recession might play catch up soon, as they did after World War II. Demographers note that women were having children later in life even before the crisis, and so births are likely to rise anyway.

But even a snapback in births to pre-recession levels will leave families much smaller than they were decades ago, a shift that has already affected industries and economies around the world.

In Japan, sales of adult diapers will exceed sales of baby diapers this year, according to Euromonitor International, a marketing research firm. In Germany and Italy, towns are emptying as families shrink and there aren't enough children to replace older ones who are dying. And in South Korea, where births have fallen 11 percent in a decade, 121 primary schools had no new students last year, according to Yonhap, the country's government-backed news agency.

In this April 14, 2014 photo, a 3-year-old boy plays in the playground at Community Day Preschool of Garden Grove in Garden Grove, Calif. According to the school's executive director Sue Puisis, the enrollment at the preschool has dropped by more than 50 percent since 2008. The financial crisis that followed the collapse of U.S. investment bank Lehman Brothers in 2008 sent birth rates tumbling around the world as couples found themselves too short of money or too fearful about their finances to have children. Six years later, birth rates haven't bounced back. (AP Photo/Jae C. Hong)

Park Hyun-kyung, a 34-year-old hospital administrator in Daegu, South Korea, says she would like to have three children, just like her parents. But she and her husband have decided to stick to one, if they have any.

"Most jobs are not secure enough to allow couples to have a baby and raise kids," she says.

In China, where the working-age population is set to shrink next year, the government is relaxing a policy that had limited many families to one child. It might not help much. Chinese are choosing to stick to one on their own.

Lei Qiang, a logistics manager in Shanghai with a 2-year-old daughter, has ruled out another child. "I just couldn't think how expensive it is to have two," says Lei, 39.

Economists are worried not just because growth is stalling in working-age populations. Their numbers as a share of the total population in many countries is falling. Economists like to see this share of total population rise, because it means more people are earning money, expanding the tax base and paying for schools for the young and pensions and health care for the old.

Before the recession, the number of these potential workers as a proportion of total population was falling in three of the world's six biggest developed economies—Japan, Germany and Italy. Now the proportion is also dropping in the United States, France and the United Kingdom, according to investment firm Research Affiliates, using data from the United Nations.

Economists say it is rare for the number of working-age people as a share of the total population to fall in so many major countries at the same time. It's usually because of war and famine, although such proportions also fell in the 1950s as baby boomers were born and populations surged. The six countries with declining proportions of working-age people now, plus China, accounted for 60 percent of global economic output in 2012, according to Haver Analytics, a research firm.

The drops are small, a few tenths of a percentage point each year off proportions of working-age people, which had peaked in developed countries at 61.4 percent in 2009. But Research Affiliates expects the working-age share of total population to fall steadily for several decades, slowing economies each year, until they bottom at about 50 percent in 2040 or so.

A country can compensate for this demographic drag on economic growth by encouraging people to work longer or to use technologies to increase output. But most economists doubt that such changes are forthcoming or would be enough.

"You need incredible productivity growth," says Michael Feroli, a JPMorgan economist. He says economic growth of 3 percent is unlikely on a "sustained basis" even for the United States, which is blessed with a flow of immigrants, albeit a slowing one, to soften the blow.

Robert Arnott, chairman of Research Affiliates, thinks investors and policymakers don't realize how much demographics will hurt economies now because they never appreciated how much they helped in the past. Payrolls rose as the oldest baby boomers started working in the mid-1960s—then kept rising as those born later took jobs. Retirees were relatively few because most workers were young. And many women joined the workforce for the first time.

It was an unusual confluence of beneficial demographic shifts, and perhaps unrepeatable.

"The developed world in the past 60 years has had the most benign demography in the history of man," Arnott says. But economic growth in developed countries will "tumble" to no more than a tepid 1.5 percent a year, on average, until 2040 or so, he estimates. And Arnott says economic growth per capita, a rough gauge of living standards, may "swing negative."

It's already on its way.

From 1960-2000, GDP per capita rose an average 2.6 percent a year in the big six developed countries. Since then, it has grown less than 1 percent a year. Arnott thinks the demographic drag is going to worsen, subtracting roughly a percentage point from the annual rate in the next few decades.

That suggests living standards barely growing, or even falling.

Andrew Cates, senior international economist for UBS in Singapore, worries that people accustomed to living better each year won't accept the new slow-growth future and will demand change through protests. "It's a recipe for social instability," he says.

This April 14, 2014 photo shows two toy in the playground at Community Day Preschool of Garden Grove, in Garden Grove, Calif. According to the school's executive director Sue Puisis, the enrollment at the preschool has dropped by more than 50 percent since 2008. The financial crisis that followed the collapse of U.S. investment bank Lehman Brothers in 2008 sent birth rates tumbling around the world as couples found themselves too short of money or too fearful about their finances to have children. Six years later, birth rates haven't bounced back. (AP Photo/Jae C. Hong)

Others note that smaller families are associated with some social benefits for societies. Births have plunged in countries where education has improved, the middle class has expanded and women have gained more freedom and rights.

Still, even optimists see the world at a delicate crossroads.

Reiner Klingholz, head of the Berlin Institute for Population and Development, says societies are unsure of their goals now that easy economic expansion is over. "We have no plans for how to run a society without growth," he says.

In aging societies, the big fear is that paying for benefits for the swelling number of retirees will weigh on economic growth. But even if benefits were fully funded, more retirees would practically guarantee slower growth for three reasons:

First, retirees don't produce anything. So a country's output falls unless new workers producing the same value of goods and services replace them.

Second, retirees don't save, invest and spend as much as workers with paychecks. That, in turn, cuts demand and slows growth.

A third reason is less obvious: Productivity of workers, or output per hour, tends to peak as they reach their mid-50s. And the increases in productivity as they near that age tend to be small. And with economic growth, only the change in productivity from year to year counts, not the level.

In other words, you may be very productive at work, but unless you're becoming even more so each year or work more hours, you're not helping the economy grow. And older workers past their peak productivity, by definition, subtract from growth.

Births have sprung back after plunging in previous economic crises, like the Great Depression. But back then many women didn't have careers, and they were expected to have big families. When the economy recovered and they could afford more children, they had them.

In this Wednesday, Feb. 3, 2010 file photo, children play at a square in Beijing. Five years after the deepest global recession since the 1930s sent birth rates plunging around the world, many couples are still not having children. That's good news if you're worried about an overcrowded planet. But it's bad for the economy. (AP Photo/Ng Han Guan, File)

This time might be different.

"Now that I'm finally back to working full time I don't really want to have another child," says Christa Heugebauer, 39, as she watches her son, Finn, 4, race around an playground in Berlin. "Besides, I've got plenty of friends my age who don't have any children at all."

Some factors potentially could offset lower birth rates and help fuel economic growth. Lower unemployment rates would help. As hiring has picked up in the United States, people who had stopped looking for a job out of despair have started hunting again, thereby expanding the labor pool.

Countries can better educate and train their existing workers, attract more immigrants and encourage people to work past retirement age.

In this 1930 file photo, a nurse holds a baby in the nursery of the Pennsylvania Hospital in Philadelphia. Five years after the deepest global recession since the 1930s sent birth rates plunging around the world, many couples are still not having children. That's good news if you're worried about an overcrowded planet. But it's bad for the economy. (AP Photo/File)

One hopeful sign: In April, the U.S. Labor Department reported that 19 percent of Americans 65 or older were either working or looking for work, up from a record low of 10 percent in 1985.

But many economists think demographic headwinds are just too strong to expect a jump in growth. The best hope is an unexpected innovation leading to a burst of efficiency in the workplace.

"Unless there is a technological miracle, demography alone points to 1 to 1.5 percent being the new normal," Arnott says. And 3 percent? That's "the new definition of boom times."