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Looking at the labor market of 25 years from now: demography, demography, demography

Editor's note: This essay is part of a series being published to help commemorate the Monthly Labor Review's centennial (July 1915–July 2015). The essays—written by eminent authorities and distinguished experts in a broad range of fields—cover a variety of topics pertinent to the Review and the work of the Bureau of Labor Statistics. Each essay is unique and comprises the words and opinion of the author. We've found these essays to be enlightening and inspirational. We hope you do as well.

Douglas Holtz-Eakin

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What will be the drivers for workers, businesses, the workplace, and the economy 25 years from now? What key environmental factors, opportunities, and challenges will be at play? In short, what topics will hold the interest of the readers of the *Monthly Labor Review* 25 years from now?

The success of the United States as the largest, strongest economy in the history of the globe is built upon innovation and technology. Innovation has included the ability to adopt new management and business models, while technology has self-evidently transformed the range and delivery of goods and services, usually in unforeseen and unforeseeable ways.

The next 25 years will be no different.

What do we know for sure? The old adage is that demography is destiny, and the United States will surely undergo a demographic transition in the next 25 years. It will become more urban, older, and more ethnically diverse.[1] In 2015, 14.9 percent of the population is 65 years or older; by 2040, that age group's share of the population is projected to rise to 21.7 percent. By contrast, those in the prime ages of 18 to 64 will fall from 62.2 percent to 57.8 percent of the population.

At the same time, the Hispanic share of the population will increase from 17.7 percent to 24.1 percent. Asians will rise from a 5.3-percent share to a 7.6-percent share, and Blacks will bump their share up modestly. The fraction of Whites in the population will fall from 61.7 percent to 51.3 percent.

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The demographic transition just described will fundamentally shift the demand for goods and services. The most obvious example is health care. According to the Consumer Expenditure Survey,[2] health care constitutes 3.1 percent of spending for those under 25 years of age, and this expenditure share rises steadily over the life cycle, to 7.9 percent for those 55 to 64 and 12.4 percent for those 65 and older.

In a similar vein, Hispanics spend a larger fraction (16.9 percent) on food than non-Hispanics spend (12.4 percent), more on housing (35.8 percent versus 33.3 percent), but far less on health care (4.5 percent versus 7.4 percent) and entertainment (3.9 percent versus 5.0 percent). As shifts in demand for core products interact with innovation and business models, the labor market will have to adapt to parallel shifts in labor demand for skills, education, and flexibility.

As the population ages, a premium will be placed on the ability to deliver services in or to the home. Already, home health monitoring, home grocery delivery, streaming entertainment, online banking, and other innovative services have transformed home-based service delivery. The experience of the next 25 years will be more of the same.

But many services still require an actual human to deliver them, and coping with that fact will represent the biggest change in the labor market. As is foreshadowed by the rise of the Uber business model, the future labor force will likely have a much greater concentration of provider–entrepreneurs. They will personally own or rent the service delivery mechanism, but contract on a flexible basis to deliver that service to a continuum of customers. The management task will be a network task: assemble a network of providers that can adhere to a quality standard while individually managing the fluctuations in demand.

The final key feature of the next 25 years will be the erosion of the 40-hour workweek in favor of the seamless integration of work–leisure. Certainly, this will be the case for the provider–entrepreneur, but the pressures of new business models will force traditional employers to adapt as well.

At present, Walmart is investing in a new scheduling system to accommodate both the company’s need for reliable staffing during peak shopping times (ironically, “before work,” “after work,” and weekends) and its employees’ need for reliable times that they can depend on to spend with families and in other activities. The likelihood that technology will enhance the speed of shifts in demands raises the need for new workplace scheduling and compensation models for all employers. The aging of the population will enhance this trend, and in the absence of a new model for long-term care, employees will have increasing responsibility for elder care.

Peering into the crystal ball is a risky business. But the core demographic forces shaping the U.S. economy will induce changes requiring innovative labor market responses over the next 25 years.

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NOTES

1 See “2014 national population projections: summary tables” (U.S. Census Bureau, March 4, 2015), https://www.census.gov/data/tables/2014/demo/popproj/2014-summary-tables.html.

2 See *Consumer Expenditure Survey* (U.S. Bureau of Labor Statistics), https://www.bls.gov/cex/.

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