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Contacts:

Victoria Pike Bond	Imran Ghori
415-488-7195	951-827-4632
Victoria.Bond@ucr.edu	Imran.Ghori@ucr.edu

Demographic Dilemma: Slowing Population Growth, Not Pandemic, At The Root Of U.S. Worker Shortage

Ability To Meet Current, Future Demand Challenged; Problem Magnified In California Due To Housing Scarcity

August 3, 2022—RIVERSIDE, CA (www.ucr.edu)—Supply chain struggles have been widely blamed for the inability to meet consumer and business demand throughout the pandemic. While fixing the supply chain should be a top priority, it is worker scarcity, driven by the lack of basic, long-term population growth that is the true underlying cause—and a critical future challenge for the economies of the United States, and particularly California, according to a new analysis released today by the **UCR School of Business Center for Economic Forecasting and Development**.

"For several decades there has been a substantial slowdown in the growth of Americans in their prime working years," said **Christopher Thornberg**, Director of the Center for Economic Forecasting and the report's author. "Whether it's the missing factory worker, delivery truck driver, or salesclerk, the scarcity of workers is hindering the ability to connect demand to supply and is slowing economic growth."

According to the analysis, long-run population growth of people between the ages of 25 and 54 accelerated dramatically in the U.S. in the 1970s, peaked in the mid 1980s at over 2% growth per year, and then collapsed just as fast, driven by sharp declines in birthrates. International migration into the United States jumped in the 1990s, offsetting some of this baby bust, but that too slowed sharply after the turn of the century. Today, the population growth rate of prime working age people in the nation is 0.2%, one-tenth of what it was 40 years ago.

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Thornberg notes that these population trends have been observed in the data for many years, but because it’s the kind of thing that happens gradually, the issue simply hasn’t been a primary focus for policymakers or business leaders.

The mass wave of retirements that occurred during the pandemic both accelerated and exacerbated today’s worker shortage, but it is not the root cause. “This is a long-term demographic problem, not a short-term cyclical one,” said Thornberg. “It is not going to disappear as the COVID crisis fades.”

As bad as the labor shortage is nationally, it is worse in California, especially Southern California, according to the analysis. The state’s lack of housing acts as a functional cap on population and labor force growth, degrading affordability and driving workers and businesses to other locations. Moreover, the state’s demographic forecasts do not paint an optimistic outlook for future trends.

According to the analysis, all of this means government agencies and policymakers need to concentrate on increasing labor supply and helping employers adapt to a new world where workers are a scarce resource. In the immediate term, there is a relatively passive way leaders can help: they can relax labor market regulations to allow employers maximum flexibility in how they hire their workforce.

Specifically, the analysis calls out the following:

- Restrictions on gig work and flexible work schedules should be reduced, not heightened as California is currently doing.
- Older employees who wish to remain active in the labor market should be encouraged and supported by reducing or eliminating potential reductions to existing retirement benefits.
- Regulation should shift to allow employers to offer a variety of wage/benefit/training packages depending on worker desires rather than being based on preset publicly mandated minimums.
- Policymakers should relax licensing requirements and staffing rules.

In the longer-term, elected and regulatory officials can make a difference in numerous ways:

- At the national level, Congress can address broken immigration policies and work to allow more people to legally move to the United States.
- State and local leaders in California can expand housing supply, particularly multifamily housing, to slow out-migration.
- Policymakers can increase earned income tax credits to support workers in moving off public assistance into lower-wage, lower-skill jobs.
- Government leaders can subsidize employer-based worker training programs to allow and encourage lower-skilled workers to enter higher skilled career paths.
- Policymakers can invest in Pre-K education and publicly subsidized childcare facilities to help workers (particularly women) remain on their chosen career path as they build families.

- Government can provide grants and training to assist small businesses in adopting labor saving technology.

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