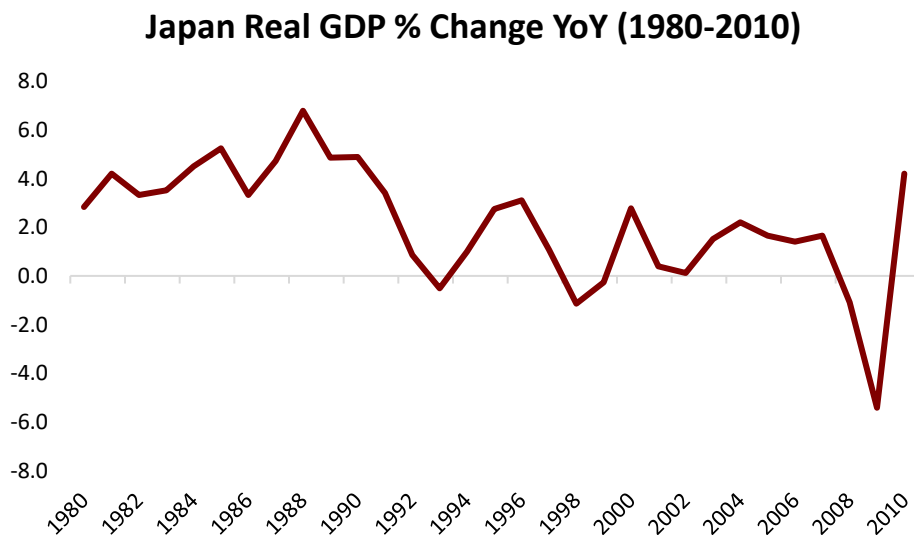


## Another Baby Boom, Please

By Michael Magnani

Back in the 1980's and early 1990's, Japan and their economy was the talk of the world. Japanese companies were winning over the hearts and minds of American consumers with products such as the affordable and reliable Toyota Camry as well as hit technology such as the Nintendo Entertainment System and its popular Super Mario Bros titles. From 1980 to 1995, Japan's GDP went from just over \$3 trillion to just over \$5 trillion. Japan was seen as a remarkable success story considering just 40 years earlier the country had been destroyed and occupied following their defeat in World War II. Many Americans feared Japan's economy would soon outpace that of America's, which led to many statements like [this](#) from future Presidents that sound eerily familiar to today when it comes to China. But then something happened. In the 15 years following 1995, Japan's economy didn't even come close to matching the levels of output they saw from 1980-1995. In fact, their economic output from 1995 to the present day has yet to match that number in gross terms.



Source: St. Louis Federal Reserve

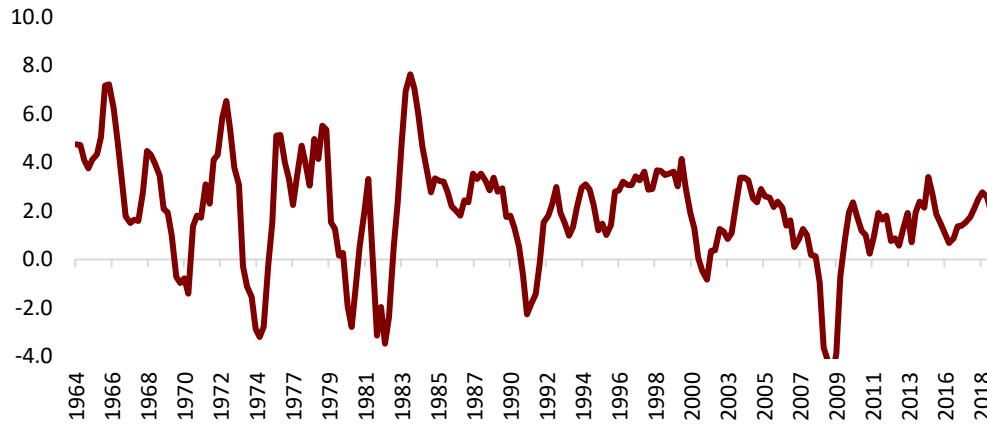
So what happened? How did an economy that in the 1980's averaged over 4% growth each year go from a ['miracle'](#) into the ['Lost Decade'](#) so quickly? The answer lies in its population demographics. Japan's population base began to stagnate in after a post-war baby boom, with



fertility rates [falling](#) starting sometime in the 1950's. This didn't present an immediate effect, as the next few decades saw this influx of babies turn into productive workers that allowed the Japanese economy to hum. Starting in the 1990's though, the effects of the lower fertility rates began to take [effect](#). This, coupled with Japan's historical and cultural ties to isolation that has led to one of the [lowest](#) rates of immigration in the developed world, had led to a shortage of workers in the economy as people age into retirement. This has been attributed to the lack of economic growth Japan has seen for the last 25 years. Unless the United States wants to end up like Japan soon, we need to start incentivizing Americans to have more children and start accepting more immigrants into our nation. Without an influx of new people to fill our future workforce, the United States may see a period of long-term economic stagnation.

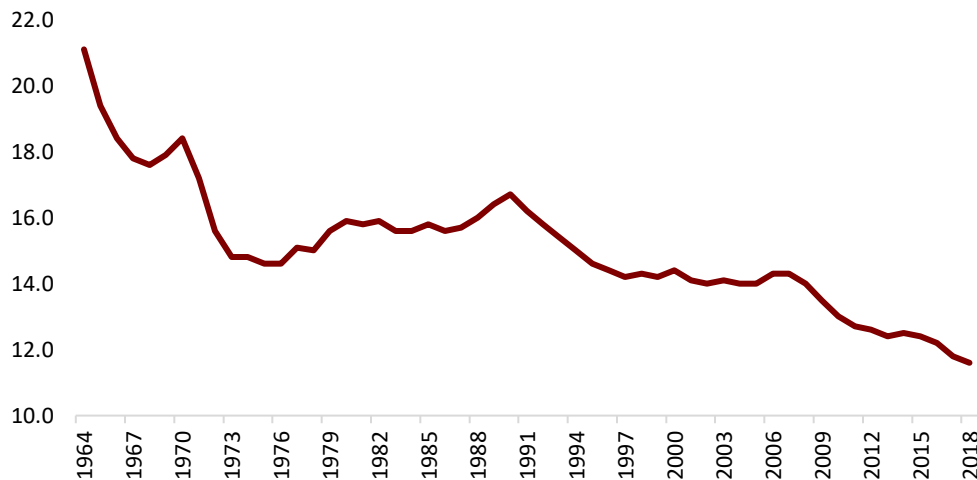
Women in the U.S. need to average 2.1 births per in order to sustain our country's current population. This is known as [total fertility rate](#). Currently in the U.S., the TFR is far below that, clocking in at 1.71. 2019 saw U.S. birth rates fall to their lowest level in [35 years](#), continuing a 5 year trend in this decline. 2020 and 2021 aren't looking much better, as the COVID-19 pandemic has [exacerbated](#) these already falling rates. With these trends likely to continue in the near future, the U.S. will soon be facing underpopulation as opposed to the overpopulation many think of. This will present many negative economic consequences for the U.S. The big one is that a shrinking population [reduces](#) economic output for economies as there are less workers and less aggregate demand. A shrinkage in aggregate demand means less homeowners and small businesses, typical drivers of a developed nation. A smaller population also means a smaller tax base, which would heighten the already pressing issues of programs such as Social Security and Medicare. Then there is the idea that a smaller population leads to less innovation and less ideas. In a paper by Stanford economist Charles Jones, he [argues](#) that ideas are key drivers of economic growth, and if we continue this trend of a declining population in the long-run, then the amount of ideas will dry up and growth will stagnate.

U.S. GDP per Capita % Change YoY (1964-2018)



Source: St. Louis Federal Reserve

U.S. Birth Per 1,000 People (1964-2018)



Source: St. Louis Federal Reserve

Some say this population decline in the U.S. had already led to certain negative economic consequences. If you look at the two graphs above, you'll notice the steady decrease in the U.S. birth rate per 1,000 people coincides with the stagnation of large increases in the percent change of GDP per Capita year over year. The last time the U.S. saw an increase of over 5% in GDP per capita compared to the year prior was 1984. This was around the time the last of the baby boomers (a generation that historians determined ended in [1964](#)) were entering the workforce, with many of that generation in the prime of their careers.

There are many solutions to solving this issue that could halt this negative trend and stop the U.S. from becoming a bigger version of [elderly Japan](#) soon. The easiest of these is to open the U.S. to more immigration. America still is the vaunted city upon a hill to many around the globe who want to come live, work and raise a family here. The U.S. would be right to open up our borders to as many hard-working and law-abiding immigrants as possible. This will not only attract skilled foreigners desperately needed to restock our universities and companies with the talent necessary in order to compete with China's rise, but also fill up jobs many Americans deem undesirable or simply don't even realize exist. Looking at the top 10 most popular jobs for immigrants [shows](#) that careers in fields such as agriculture labor, construction, cleaning services and transportation employ many immigrants. These are necessary jobs needed to keep an economy growing, and a smaller population would create vacancies in many of these essential services that would have to be inefficiently filled by someone with post-secondary education, for example.

The cherry on top may just be immigrants coming to the U.S. [generally](#) tend to be of working age and also have a [history](#) of starting-up more businesses and having [higher](#) birth rates than native-born Americans. Given America's current nativist sentiment though, this may be easier said than done. Other solutions include incentivizing parents to have more kids during an era where raising children is proving [costlier](#) than ever. The child tax credit [announced](#) in the newest stimulus plan is a good start, but should be expanded beyond the current group of eligible families. Hungary [recently](#) passed a law that tries to stymie their lack of childbirth by saying if you have more than 4 kids you will be exempt from income tax for life. It remains to be seen whether that will actually work in increasing birth rates there, and whether that is feasible in a much larger country such as the U.S., but it at least goes to show countries are thinking about this issue. Another idea that has gained traction of late is the idea of free universal pre-school for all American children. There is [a lot](#) of [data](#) that shows that children as a whole benefit from an investment in early education, even more so than any sort of secondary education. By starting a program like this for children nationwide, more parents may be incentivized to have children than before. There are also more grandiose (and controversial) ideas that could lead to birth rates in the U.S. increasing. Many of these, such as universal



healthcare, free (or certainly less expensive) college, a larger social safety net, are hot button issues at the moment that this author does not want to wade into for the sake of the reader. The point of the matter is that the U.S. needs to stop the current trend of a declining population or risk effecting future economic growth. The U.S. needs another baby boom, a massive influx of immigration, or (more realistically) a combination of both, to counter this long-term issue. Ok, boomer?