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As Workers Dwindle, AI Is Set to Pick Up Slack

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The advent of artificial intelligence has led to worries that the U.S. faces a future where there will be too few jobs for workers to fill. But the challenge for the economy could be just the opposite: a sharp slowing in the number of people entering the workforce that leads to an unprecedented era of labor scarcity.

It is a development that could profoundly reshape how the economy operates, according to an analysis by Steven Ruggles, a leading demographer. Ruggles says the shift could bolster workers' bargaining power and drive wages higher.

It could also mean that for the economy to stay healthy it will need the kind of productivity boost AI might bring.

"If there's an unprecedented labor shortage, this is going to be a huge incentive to adopt labor- saving devices, like AI," said Ruggles, a professor at the University of Minnesota who won a 2022 MacArthur Genius grant for his work on population statistics.

In research published this May in the journal Proceedings of the National Academy of Sciences, Ruggles concluded that the U.S. is in the midst of a protracted slowing in its labor force, one that will give way to an outright decline.

Based on an analysis of Census Bureau data and Congressional Budget Office immigration and mortality estimates, Ruggles forecast that over the 10 years ending in 2030, the U.S. labor force, the number of people working or seeking work, will have expanded by just 9.1 million people. That would be the fewest in a 10year span since the decade that ended in 1960. Over the 10 years after that, he forecasts that the labor force will contract by 2.1 million, or 1.3%.

The large increase in the working-age population brought on by the baby boom lasted longer than many experts thought it would. In a 1978 address to the Population Association of America, the economist and demographer Richard Easterlin predicted that the decline in young men's inflation- adjusted wages, which had weakened when baby boomers hit the job market, would reverse by 1984, as the much smaller Generation X came of age.

What he hadn't counted on was a large rise in women's labor- force participation and a big increase in immigration. Together, those led to a much more gradual decline in young people going to work than Easterlin expected.

Both factors appear to have run their course, according to Ruggles. Meanwhile, a sharp decline in the U.S. fertility rate that began in the mid-2000s will make for fewer young people entering adulthood in the years to come.

As the number of workers dwindles, he thinks that wages for young people will rise, leading more people to enter the labor force. He also thinks that organized labor could get a boost.

There are caveats to Ruggles's scenario: notably that if there were a sharp rebound in immigration, the supply of workers might not be so diminished. But if he is right, the economy will be relying on a smaller labor force for the growth it needs to support an increasing number of older people.

That is where AI could come in. Economists are divided over whether the technology will take away jobs or --if it will instead help workers get more done.

One thing economists agree on is that AI will boost productivity. And new research from Daron Acemoglu, David Autor, Keelan Beirne and Andrew Scott indicates that there is a historical tendency for economies to offset a scarcity of younger workers with efficiency gains.

In a working paper posted to the National Bureau of Economic Research's website this month, the economists looked both across communities within the U.S. and across countries to analyze how economies respond to lower birthrates. Their core finding: Rather than hampering the economy, slower population growth is associated with higher gross domestic product per working-age adult—and higher wages.

"Labor markets in which workers are scarce work really well for workers and generate productivity gains as well," said Acemoglu, a Massachusetts Institute of Technology professor who won the 2024 economics Nobel.

The economists argue that when young workers become scarce, businesses respond by investing more in labor-saving technology. One of the pieces of evidence for this that they uncovered: Countries and U.S. regions with declining birthrates see increases in laborsaving patents.
