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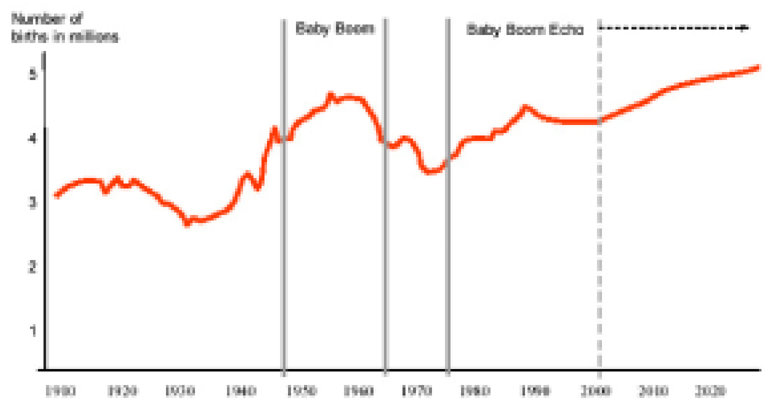
VIEW

Downturn—Or Down Decade?

Today's slow economy might be just a temporary downturn. But the inexorable force of demographics may instead be pushing us into a decade of no growth. That doesn't mean no profits—American business has handled this before. But it does mean the principles and expectations that most leaders count on will have to change.

Ignoring a Tidal Wave



The 19th century sociologist August Comte said that demographics are destiny. Though most of us haven't realized it yet, our destiny has begun to shift. We look at today's economy and see a downturn. What we overlook is the evidence that this downturn is not a blip, but a sign of demographic changes that have only just begun. Four key facts lead to four hypotheses. If the hypotheses are correct, then now is the time to get ahead of the coming population wave. The principles we rely on to lead, the assumptions we use to manage, the growth we expect from our businesses—all may need fundamental change, not just to weather a quick recession, but to navigate a decade of unfamiliar economic waters.

Fact #1: The demographic forces of the '00s are very different from those of the '90s.

Baby boomers are out, the baby boom echo is in. This transition is starting small, but it's going to be big. Average age hasn't fall much yet in the US. But the percentage of the population in the prime spending years (30 to 50) is down. More important, it will drop throughout this decade.

Fact #2: The age structure we're facing today looks a lot like the 1970s.

This shift is big, but not unprecedented; we went through it about 30 years ago. The boomers were just moving into their twenties. Their parents were mainly done with major expenditures on kids, other than college; they'd bought the houses, furniture, and station wagons. They started to think about retirement, including ways to cut spending and preserve wealth through old age. Meanwhile, the boomers were everywhere—but didn't yet have much money to spend.

Fact #3: The 1970s were an unpleasant time for the US economy.

If you remember the '70s, then you already know this isn't a happy comparison (not economically, anyway). The go-go years had just ended. Big companies were not just poised for mega-growth; they were addicted to it. Many people could only remember boom times. But when the boom faltered, nothing that business and government leaders tried seemed able to start it again. Unemployment, inflation, interest rates all seemed beyond our control. (Our favorite attempt at turning the economy around was Gerald Ford's campaign to promote the wearing of colorful buttons emblazoned with the word WIN – for Whip Inflation Now…) In the 1970s, economic growth simply wasn't going to happen. When the decade opened, the Dow-Jones Industrial Average was at 809; despite fluctuations, it would not be until 1982, twelve years later, that the Dow would cross that line for good. In historical terms: From the end of World War II until 2000, the United States economy only experienced flat or negative GDP growth in eight years. Five of them—more than half of the total during a period of more than 50 years—were from 1970 to 1982.

Fact #4: The baby boom echo is a decade away from its high-spending years.

That big population bulge just coming along may eventually bail us out. But if historical patterns hold, it won't be soon. The baby boom echo began in 1977. Those cohorts are just entering the workforce. Salaries are at their low points. Families haven't been started. The demand, and the cash, for high spending (homes, new cars, furniture, family-scale clothing and groceries) won't come together until 2010 or later.

Ripple Effects

Those are the facts. Now for the hypotheses:

Hypothesis #1: Consumer spending ultimately drives the economy

Many would call this fact. To be fair, though, in some sectors it is disputed. Very bright economic analysts point to the government spending programs of the 1980s – particularly defense spending – as a reason that the U.S. economy turned around during the Reagan years. Two facts are worth noting. First, similar government spending programs in Japan (non-defense related, of course) have had little effect on the economy there. Second, Reagan didn't just spend on defense; he led us to tax cuts that put more money into the hands of baby boomers just when they needed the money the most…as they faced those big family-years purchases.

Hypothesis #2: Today's recession may be the first in a series… like those of the 1970s.

If demographics helped explain that string of recessions, we may be facing a rerun. Certainly, two fundamental trends are the same. As we saw, the echo generation is not yet able to drive the economy with its spending. Equally important, boomers are beginning to move into their 60s – a time of downsizing saving, and significantly decreased consumer spending. Even boomers at the trailing edge, not yet 45, are surrounded by tuition bills, a recent lesson in economic volatility, and reminders that they can't work forever. So for one big group, the thrill of spending is gone; for their successors, the money and need just aren't there yet.

Hypothesis #3: "Universal" business strategies may not work in this new world.

The obvious change of all this demography is that different industries suddenly become important. Boomers may spend less on expensive wine…but more on medical care and assisted living. More important, though, are the principles we count on every day—the ones that seem like laws of nature. In good times, we learn to rely on a certain set of strategies and management techniques to improve performance. We look for growth; we focus on market share; we measure the dimensions that show change during boom times. When the demographic landscape begins shifting under our feet, we naturally try to steady ourselves…by grasping at these tried-and-true methods. But this is exactly the moment when what has worked for 20 years no longer helps. Everything is open to question; what was "best practice" just months before may be disastrous today.

Hypothesis #4: When growth is no longer a given, leadership has to change.

If we're entering a period like the 1970s, every stakeholder in your company is in for a shock. Investors may have to begin thinking about strategic position and a timescale of years, not quarters. Employees, too, will be frustrated and uncertain. How you motivate people, what you ask them to do, what vision you hold out for your shared future—all that has to change.

These are still hypotheses, of course, not certainty. Maybe the long boom will restart tomorrow. Maybe. But we do suggest a backup plan. For most firms, it's possible to not only survive, but prosper, in the demographic valley between booms. The trick is learning from some of the best—yet least famous—competitors of the 1970s. More on that in future Views.

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