Revisiting America's Demographic Challenge: How Increasing Immigration Can Bring the United States Out of the Covid-19 Economic Slump and Maintain Its Global Competitive Edge | Bipartisan Policy Center

A s the United States continues to ramp up its vaccination campaign and the job market picks up strength, the country is rounding the corner of one of the largest economic downturns since the Great Depression. It is typical during economic downturns that support for increasing immigration loses steam. However, if the United States hopes to make a complete recovery, Congress needs to reconcile with the idea that increasing immigration may be instrumental in ensuring continued, long-term economic growth, as well as key in maintaining the country's global competitive advantage. In 2017, the Bipartisan Policy Center published a report on America's demographic challenge, arguing that immigration has and can mitigate some of the negative fiscal and economic effects of slowing population growth and an aging population in the United States. Now, almost four years later, many of the challenges outlined in the original report have been exacerbated by the pandemic, further supporting the notion that increasing immigration can help in solve the demographic problem.

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The COVID-19 Pandemic Contributes to Stagnation in Population Growth

In early 2020, the U.S. Census Bureau projected that 2030 will be a turning point for the demographic makeup of the United States. As shown in Figure 1, all baby boomers will be older than 65 by 2030, which will expand the size of the elderly population so that 1 in every 5 residents will be of retirement age. By 2060, the Census Bureau projects that nearly 1 in 4 Americans will be an older adult.

Figure 1: Population by Age Group: Projections 2020 to 2060

Although the Bureau projected births to be nearly four times larger than the level of net international migration[1] in coming decades, a rising number of deaths and declining fertility rates will increasingly offset how much births can contribute to overall population growth. The COVID-19 pandemic has only exacerbated this trend. While the official 2020 Census demographic data will not be published until this summer, initial results released in April 2021 show that the U.S. population has grown at the slowest rate since the 1930s. The birthrate also declined for the sixth straight year in 2020, and has fallen by approximately 19% since its peak in 2007.[2] Experts anticipate that when the final data is published, it will likely detail an unprecedented stagnation in population growth, a continued decrease in Americans' geographical mobility, more pronounced population aging, a first-time decline in the size of the white population, and rising racial and ethnic diversity among millennials, Generation Z, and younger groups.

Because of the pandemic, 2020 also witnessed the largest annual decline in the number of immigrants entering the United States. In 2019, the Census Bureau projected that net international migration was set to fall to its lowest levels this decade, and recent federal data supports this conclusion. According to the Cato Institute, the total number of immigrants legally entering the U.S. declined by 87% this past year, as the State Department closed its consulates and President Donald Trump issued a proclamation suspending new visa issuances to most immigrant categories. BPC's research suggests that even before Trump's proclamation, the United States was experiencing a decline in legal immigration of foreign-born individuals. For example, data released by the Department of Homeland Security shows that the number of individuals obtaining legal permanent residency in the United States declined for a third year in 2019, with a 12% drop in those obtaining permanent residency from fiscal year 2016 to FY2019. Overall, annual growth in net international migration slowed between FY2015 and FY2016 and has been declining since.

How the Level of Immigration Can Change the Demographic Future of the United States

In February 2020, the Census Bureau projected that immigration would overtake natural increase (the excess of births over deaths) as the primary driver of population growth in the United States by 2030. As shown in Figure 2, the projection had the nation's foreign-born population rising from 44 million people in 2016 to 69 million in 2060, growing from about 14% to 17% of the population. The previous historic high foreign-born percentage was in 1890, when almost 15% of the population was foreign-born. If past trends continue, this will mean 1 in 6 residents in the U.S. will be foreign-born by 2060.

Figure 2: Foreign-Born People Living in the United States: 1850 to 2010, Projected 2020 to 2060

However, the data represented above are merely projections. What could happen to the overall population if immigration declined, or was eliminated entirely, and how would this affect the U.S. economy in the future? Using 2017 population projections data, the Census Bureau calculated how the population would change under alternate migration scenarios. As shown in Figure 3, higher levels of immigration over the next four decades would produce a faster growing population for the United States, while an absence of migration into the country over this same period would result in a smaller total population. Importantly, the Census Bureau notes that high immigration levels will delay the future year in which the population of those over 65 exceeds the share of the population under the age of 18. In scenarios of lower immigration levels, the United States will reach that milestone sooner.

Figure 3: Projected U.S. Population by Immigration Scenario: 2016 to 2060 (3)

How Different Levels of Immigration Could Affect the U.S. Economy in the Future

It is evident that immigration will play an important role in determining the future population levels and demography of the United States. Consequently, the level of current and future immigration will play a key role in defining the future workforce and growth of the U.S. economy. According to one new report, if the United States does not increase future legal immigration, it will sacrifice its position as the world's largest economy by 2030 and leave the reserves of vital programs—like Social Security—depleted by 2034. Recent BPC research has also found that the pandemic has only exacerbated this trend, with experts anticipating the funds to be depleted sooner unless policymakers act to address this looming crisis.

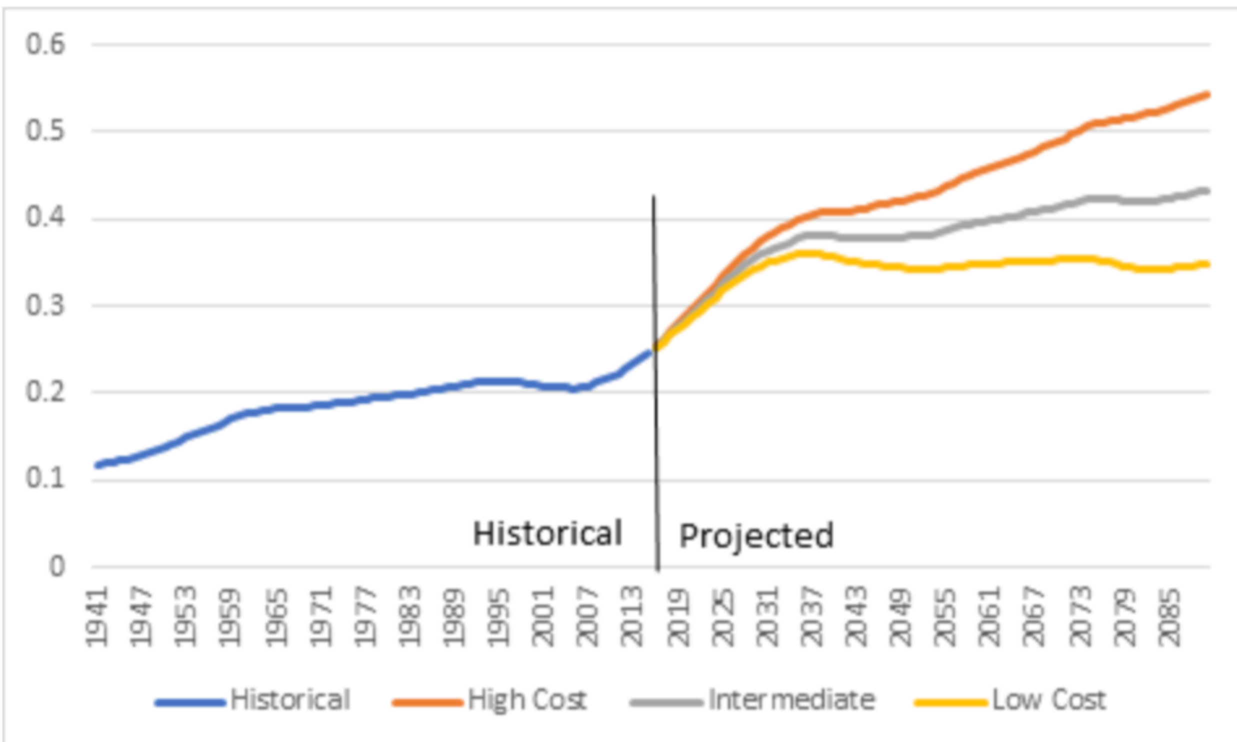
There is myriad research on how immigrants play a critical role in expanding the U.S. economy. For example, FWD.us has projected that

U.S. gross domestic product (GDP) could double and grow as large as $47 trillion in today's dollars in 2050 if immigration levels were doubled to more than 2 million new permanent and temporary immigrants each year. Per capita, this would lead to a 3% increase in average income by 2050 for all Americans compared with current immigration levels, and a 7% increase compared with a zero-immigration scenario. Comparatively, PricewaterhouseCoopers predicted China's GDP to reach $50 trillion by 2050, so keeping immigration levels high would ensure the United States remains a top global economic competitor.

In addition, the sheer spending power of immigrants in the U.S. economy is significant and vital for job creation. Analysis of the 2019 American Community Survey data indicates immigrant residents had $1.3 trillion in collective spending power. Further, evidence from a survey of business owners in 2007 and 2012 indicates that first-generation immigrants account for 25% of new firms in the United States, but that this share exceeds 40% in some states, such as California and New York. Since young firms account for almost all net job growth in the U.S., immigrant business owners play a vital role in creating new job opportunities for American workers.

Higher levels of immigration can also improve the senior to working age ratio that affects social insurance programs such as Social Security. According to the Census Bureau, dependency ratios are a way to look at the changing age composition of the population. They indicate how many workers are paying into systems that support the dependent population—in other words, detailing how many people the working-age support. A lower dependency ratio means fewer workers support each dependent and constrict the availability of funds for dependents in the system. As BPC's 2017 demographics report highlights, we already expect the that the average age of the U.S. population will continue to increase in the coming decades and the ratio of workers to retirees is already in decline. Figure 4 displays the long-term trend of the dependency ratio, depicting not only the historical trends but also three scenarios modeled by the Social Security Trustees.

Figure 4: Old-Age Dependency Ratios, Historical and Under Three Projected Scenarios



Source: U.S. Social Security Administration

The three scenarios: "Low Cost," "Intermediate," and "High Cost," make varying economic and demographic assumptions about economic growth, mortality rates, fertility rates, and immigration levels. However, even under the most optimistic projection, the dependency ratio increases significantly, meaning that the Social Security trust fund will eventually become insolvent even under favorable demographic and economic projections. Thus, if the United States hopes to delay the year in which Social Security funds become insolvent (currently 2034), an annual net increase in immigration will be critical. If new immigration were to slow or to stall in the coming decades, trust-fund solvency would likely be more strained, especially as the COVID-19 pandemic has only expedited the depletion of the program's finances.[4]

Conclusion

The Census Bureau projections make it evident that the United States is racing against an aging clock. 2030 will be a defining demographic decade, where immigration has the potential to shore up the senior to working age ratio, increase income for all Americans, facilitate a prosperous GDP, and ensure that critical programs like Social Security are not depleted. As the U.S. economy begins to make the slow, post-pandemic return, immigration levels will be instrumental in expanding our future workforce and growing our economy. As it stands, current immigration projections will not be sufficient to mitigate the consequences of a graying population, especially in the aftermath of the pandemic. It is vital that Congress enact long-lasting immigration reform that recognizes the economic and demographic benefits that immigration can bring.

End Notes:

1 Net international migration for a given country refers to the difference between the number of immigrants and the number of emigrants. If more people immigrate to a country than emigrate from it, the country gains population from positive net migration. When more people emigrate than immigrate, the country loses population through negative net migration.
2 The birthrate is measured by the number of babies per thousand women ages 15 to 44.

3 The main series of projections, released in September 2018, assumes that future international migration will mirror recent historical trends; this is the “middle” migration assumption. The zero-immigration scenario assumes that immigration into the United States falls to zero (the theoretical minimum). Under this scenario, there is no immigration, but the Census Bureau still allows for emigration out of the United States. The high immigration scenario assumes immigration increases by 50% compared with levels from 2011 to 2015 for all projected years. The low immigration scenario assumes that immigration rates are roughly cut in half from their 2011 to 2015 levels.
4 To read BPC’s prior report on demographics, click here.

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