

# SUSTAINING CAPITALISM

A series focused on nonpartisan reasoned solutions in the nation's interest to the central challenges we face in order to provide prosperity for all Americans.



## The Aging Workforce: Tackling the Challenge

America's longest economic expansion on record—and one of its tightest labor markets in recent decades—has resulted in widespread benefits for American workers and the United States' lowest unemployment rate in 50 years.<sup>1</sup> But tightening labor markets are shining a spotlight on demographic challenges that could threaten continued growth and shared prosperity in the future.

Going into 2020, US CEOs cited the *attraction and retention of talent* as the number one internal risk they face in the *C-Suite Challenge™ 2020*, a survey of risks and opportunities released by The Conference Board in January.<sup>2</sup> This challenge, intensified by tight labor markets, is set against a backdrop of a significant demographic transition—as the US continues towards what some have described as an “inescapable” greying of America.<sup>3</sup> Retaining existing workers and drawing more potential workers into the labor force—including through better supporting or developing existing talent—is a concern not just for individual businesses but for the nation as a whole.

The demographic transition itself, and its implications for the US labor force, is no surprise. It has been projected by government and policy analysts for decades. But even if these changes are not surprising, policymakers and business leaders have erred in not seeking ways to more aggressively ameliorate the challenges of an aging and very slow growing population, which could be a significant barrier to future economic expansion.

Business leaders and policymakers must make expanding the overall US labor force a top-tier public policy issue. This report is a step in that direction. It highlights reasoned solutions aimed at urgently addressing these challenges by: 1) helping Americans who would like to work more to do so; and 2) drawing upon available talent abroad to deliver more widely shared prosperity for families, a deeper and more highly skilled pool of talent for American businesses, and economic growth and fiscal stability for all.

# Tackling the demographic challenge

In 2020, the US needs to confront the challenges of its current demographic transition. The following recommendations can help set us on that path:

## Increasing participation in the labor force:

**Expand and increase the Earned Income Tax Credit** for adults without qualifying children in order to incentivize more people to enter the labor force and remain working

**Lessen barriers to participation** through improved employee-employer matching and increased mobility, including:

- Pushing states and localities to deliver high-quality, effective reemployment services
- Reviewing and reforming of occupational licensing requirements and the inappropriate use of noncompete clauses
- Funding high-quality demonstrations of relocation assistance and wage-insurance pilots

**Help parents remain connected to the workforce** and meet family responsibilities

**Support older workers who wish to remain working**, including through market-based health care reform that would eliminate the potential for health insurance cost disparities to motivate discrimination against older workers, piloting a modification of the Social Security retirement earnings test, and supporting flexible work arrangements

## Modernizing immigration policy:

**Increase economically motivated offers of permanent residence** while protecting existing family reunification visa levels and the diversity lottery, channeling additional visa offers to immigrants selected for economic reasons, and removing country-of-origin based limitations

**Pilot a “fast-track” entry program** for top international recruits

**Set aside an annual allocation of “place-based” employment visas**

**Reform the H-1B visa application and approval process** for in-demand, highly educated immigrants, including:

- Shifting to quarterly or monthly allotments of visas;
- Speeding up visa processing;
- Prioritizing visas for eligible applicants with the highest offered salaries; and
- Instituting a mechanism to modestly increase or decrease the number of available visas based on recent demand

**Improve the H-1B visa pathway to permanent residence** by allowing H-1B visa holders to self-nominate for permanent residence and by making it easier for spouses of H-1B visa holders to work

## AN AGING COUNTRY AND FEWER NEW WORKERS

Three broad changes have contributed to the shift in the US demographic outlook and projected slowing of economic growth: declining fertility, an aging America, and falling immigration rates.

Americans are having fewer children. The general fertility rate—the number of births for every one thousand women and girls ages 15 to 44—reached its post-World War II peak in 1957 during the “baby boom.” However, by the mid-1970s, the rate had fallen precipitously and has shown signs of further decline over the past decade.<sup>4</sup> On average, the annual general fertility rate in the 2010s has been almost half (47 percent lower) that of the 1950s.<sup>5</sup> There were fewer births overall in the US in 2018 than at any point in the past 30 years.<sup>6</sup> A 2018 report noted that every state in the country was reporting birth levels below historical peaks, with half the states reporting birth counts at least 30 percent below previous highs.<sup>7</sup> In the long-run, declining births make it more difficult for the US to expand its labor force as the number of young adults entering the workforce struggles to keep pace with the number of workers retiring.<sup>8</sup>

While births have been declining, more Americans are living longer. An American surviving to age 40 in 2016 was expected to live an average of seven and a half years longer than had been the case in 1950.<sup>9</sup> Continued improvements in longevity can help reduce the number of new Americans needed—whether through birth or migration—to keep the US population from declining. Even still, in 2019, the rate of annual growth owing to “natural increase,” the population bump resulting from more births than deaths, declined to its lowest level in a century.<sup>10</sup> In addition, increases in life expectancy, declines in births, and the aging of the large “baby boom” generation is leading to a proportionately older society, unprecedented in US history. There were more than 17 million more Americans age 65 and over in 2018 than at the turn of this century, increasing their share of the population from 12 percent to 16 percent.<sup>11</sup> By 2030, these older Americans are expected to make up a fifth of the US population and the Census Bureau has projected that, by 2034, there will be more people in the US who are 65 years and older than children under age 18.<sup>12</sup>

In addition to changes in fertility and longevity, immigration is a major driver of shifts in the size and composition of the US population. Because immigrants to the US are typically of an age where working and having children is common, adding new immigrants has been an important source of workforce and population growth in recent decades. The foreign-born population in the US grew rapidly between 1980 and 2000, increasing by an average of 4 percent annually. This growth led to an increase in the share of the American workforce who are foreign-born, from 7 percent in 1980 to 17 percent in 2017.<sup>13</sup> More than a quarter of the current US population was born abroad or has at least one foreign-born parent.<sup>14</sup> While few children migrate to the US, more than a quarter of all children—18 million kids under age 18—have at least one foreign-born parent.<sup>15</sup> By one estimate, migrants to the US and their descendants have been responsible for more than half of all population growth over the past five decades.<sup>16</sup> However, the rate of growth of

the foreign-born population itself has slowed significantly since the beginning of the 21st century and is expected to continue slowing over the next three decades.<sup>17</sup> Worryingly, the US has experienced a sharp decline in immigration in just the last two years. After averaging annual net migration to the US of nearly 900,000 people between 2012 and 2017, the net increase from migration is projected to have fallen to below 600,000 people on average over the past two years.<sup>18</sup>

Looking forward and considering fertility, longevity, and immigration trends, the US appears headed for a period of extraordinarily slow population and workforce growth and continued aging.<sup>19</sup> When numbers are finalized, the 2010s are likely to have been the slowest pace of growth decade for the US population since at least the Great Depression-affected 1930s.<sup>20</sup> Between 2020 and 2060, the Census Bureau projects that the native-born population of the US will increase by an average of only 0.4 percent per year, roughly half the rate experienced between 1970 and 2010.<sup>21</sup> By 2030, immigration is expected to overtake “natural increase” as the largest driver of population growth in the US even though the net contribution from immigration is not expected to significantly grow.<sup>22</sup> Such low levels of national population growth suggest that many regions will likely experience a decline in population. Already, between 2010 and 2018, two states—West Virginia and Maine—recorded more deaths than births.<sup>23</sup> During that same period, eleven states saw larger declines from families moving out of state than increases from “natural increase.” However, immigration from abroad prevented what otherwise would have been overall population loss in nine states and greatly reduced it in the three states that did ultimately lose population.<sup>24</sup>

The US workforce looks poised for similarly slow growth. The US Department of Labor projects that the civilian labor force will grow, on average, only 0.4 percent annually over the next three decades.<sup>25</sup> By comparison, between 1990 and 2007—with the youngest baby boomers in their prime working years, high rates of growth in the numbers of foreign-born workers, and the trend of more women seeking employment appearing to peak—the civilian labor force grew by an average of 1.2 percent per year.

At a local level, many Americans already live in areas suffering labor force decline. Between 2007 and 2017, roughly 46 percent of Americans lived in a county that experienced an overall decline in the number of 25- to 54-year-old residents, the ages when adults are most likely to be in the workforce.<sup>26</sup>

Immigration decisions made in a previous generation are expected to be the principal driver of medium-term increases in the size of the US labor force. Growth in the number of US-born children of immigrants aging into the workforce, along with a small but shrinking net increase in the number of foreign-born workers, will offset consistent declines in the number of Americans between the ages of 25 and 64 with only US-born parents, leading to modest overall working-age population growth through 2035.<sup>27</sup>

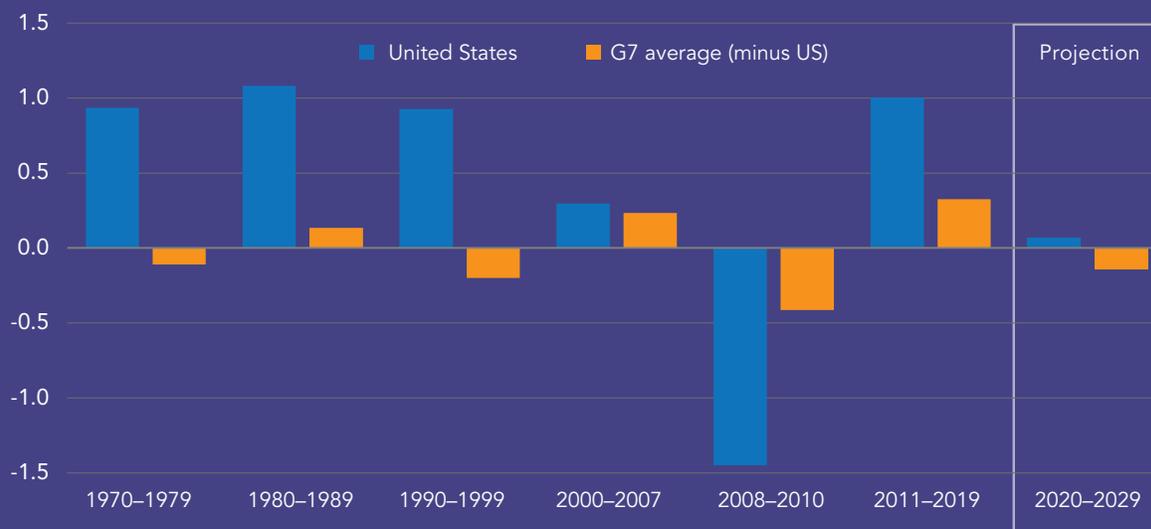
# THE ECONOMIC CONSEQUENCES OF SLOWER POPULATION GROWTH AND AN OLDER AMERICA

## National impacts

Increasing labor productivity is likely the surest route to increasing living standards, but a slowdown in the rate of labor force growth can reduce the overall growth of the nation's economy. Having more workers has typically led to more production, wages, and consumption, and the growth of the US labor force has been a significant contributor to past US economic growth. Aggregate increases in the total annual number of hours worked has accounted for more than a fifth of US economic growth over the past 25 years, including between roughly a third and a half of economic growth in each of the last eight years as the labor market recovered following the Great Recession.<sup>28</sup> However, with the aging of the workforce and a slowing rate of new worker entry into the labor market, The Conference Board projects that additional hours worked will contribute an annual average of less than 0.1 percentage points of GDP over the next decade.<sup>29</sup> As a result, the US will be more dependent on uncertain productivity growth to drive economic gains and lose much of what has historically been a relative advantage from labor force growth compared to other advanced economies, potentially weakening our competitive position globally.

## Labor force growth is expected to play a much smaller role in future economic growth

Contribution of labor quantity to average annual GDP growth



Source: The Conference Board Global Economic Outlook

A slower growing workforce may reduce economic dynamism. For example, entrepreneurs making plans and investors looking to deploy capital will have to recognize that, in many regions, there will be fewer opportunities for new customers and slower growth in the supply of young, skilled workers, or look elsewhere for opportunities. Economists at the Federal Reserve Bank of New York have theorized that declines in the nation's labor force growth rate are largely responsible for the steady decline in the rate of new firm formation over the past four decades.<sup>30</sup>

Even with some growth in the total number of workers, a few economists have begun pointing to the overall aging of the labor force itself as potentially contributing to reduced opportunities for workers and slower productivity growth.<sup>31</sup> At least in the short-run, US economic fortunes depend to an extent on increasing the contributions of older workers as a source of labor force expansion. Business leaders and policy makers should prioritize initiatives to fully tap the productivity potential of older workers who wish to continue working beyond traditional retirement ages by lowering barriers and increasing flexibility that would allow them to continue to participate.

The aging and longevity of the US population and slowing growth of the labor force also has fiscal consequences. Since 2011, the annual number of new retirees has increased threefold, with elevated levels of new retirees expected to continue through 2030.<sup>32</sup> Relatively fewer workers will be available to support the increasing number of Americans eligible for programs like Social Security, Medicare, and Medicaid.<sup>33</sup> As a result, federal programs that support seniors are likely to require a greater share of available resources just to maintain current levels of individual benefits. The increased draw on resources for these programs may make it more difficult, at least politically, to finance long-run investments in areas such as science, education, and infrastructure that could help make the US richer and more globally competitive in the future.

## Local impacts

Even if it occurs only on a regional basis, a shrinking population or labor force may contribute to a cycle of local economic decline for commercial interests and reductions in tax revenues. With a falling population, housing markets suffer, and state and local finances weaken as taxable income and assets shrink faster than the demand for government-funded services.<sup>34</sup> Below a certain scale, some amenities and employers, including regional hospitals or institutes of higher education, may struggle to survive or maintain quality. This trend may further motivate residents who can access opportunities elsewhere to leave the area, accelerating the cycle of decline and potentially leaving behind larger concentrations of people with limited mobility and limited economic prospects.

Because older Americans tend to have lower taxable income and generate less local demand for goods and services, a greater concentration of the elderly can pose challenges to the finances of state and local governments, particularly those with higher levels of unfunded public pension liabilities.<sup>35</sup> In 2013, researchers at the Federal Reserve estimated that merely shifting the age composition of the US population in 2011 to match projections of the nation's 2030 age composition would have reduced state tax revenue by more than one percent.<sup>36</sup> At the same time, the aging of state populations will likely be a key driver of increasing state expenditures. For example, the Office of

the Actuary in the Centers for Medicare & Medicaid Services projects that Medicaid costs, which currently are estimated to account for a little less than one-sixth of all state government spending, will increase by an average of more than 5 percent annually over the next decade.<sup>37</sup>

## TACKLING THE DEMOGRAPHIC CHALLENGE

Though it has been a long time coming, the nation's ongoing demographic transition poses challenges and risks to the trajectory of US economic growth that cannot go ignored by business leaders and policy makers. To sustain and expand the benefits of capitalism and ensure that the US continues to generate increasing and shared prosperity for all Americans, the nation needs to embrace every available advantage to bolster the American workforce and provide businesses with the talent they depend on.

In the coming years, the "greying of America" is a near inevitability. Even a sharp turnaround in American birth rates would take decades before it could begin to reverse the slowing growth of the US labor force or alter the fiscal impacts of an aging population. The US must manage the impact of this trend to improve its near- and long-term position relative to current forecasts and global competitors. The US can look proactively in two directions for reasoned, evidence-based policies that would have far-reaching consequences for the future strength of the economy:

**First**, it is essential that the nation takes full advantage of its existing talent, including from groups whose potential contributions the US has failed to fully support and cultivate in the past. Increasing labor force participation—helping more Americans find work they are willing and fully able to do and remain working during periods of transition or disruption—could help to partially address the nation's economic challenges. While the US economy has been experiencing its longest expansion in history, labor force participation rates remain disappointing, especially compared to other advanced economies. Whether currently in or out of the workforce, helping Americans who would like to work more to do so is also critical for ensuring that more families share in American prosperity and are able to more fully benefit from utilizing their talents and capacities.

The private sector must take the lead in establishing the conditions necessary for all potential employees to succeed, including reducing the barriers to potential workers entering or remaining in the workforce. Importantly, business leaders and policymakers need to work together to implement public policies that address the overall growth of the labor market and would make it easier and more attractive to find work and remain working. Below, and described in further detail in CED's *Growing the American Workforce: Bolstering Participation Is Critical for US Competitiveness and Economic Strength*, are a range of public policies that would promote that objective by incentivizing work and reducing the barriers that are currently preventing large segments of workers from achieving their employment goals.<sup>38</sup> Additionally, as part of a broad-based strategy aimed at increasing workforce participation, the US will need to pursue other solutions tailored to the full range of employment challenges Americans face—whether it is veterans transitioning to civilian employment, ex-offenders re-integrating into the workforce, workers managing health shocks or potentially work-limiting disabilities, or other circumstances where weaker outcomes call for concern.

**Second**, just as adding foreign talent from abroad has been a meaningful source of advantage and strength for the US economy in the past, policymakers need to take steps to ensure that the nation is better leveraging available economic advantages from immigration policy in the future. While not every American benefits from increased immigration, most do—as does the nation as a whole. Immigrants from a variety of skill and education backgrounds often have positive, complementary effects on other US workers.<sup>39</sup> In aggregate, immigrants to the US bring an enormous infusion of human capital, equivalent in value to even some major Federal investments. A 2018 CED analysis found that many foreign-born workers enter the US after receiving valuable education and training abroad, which increases their contribution to the economy. Immigrants to the US between the ages of 18 and 35 in 2015 provided the US economy with an infusion of human capital equivalent in value to more than half the cost of that year’s defense expenditures or more than 60 percent of Federal Medicaid expenditures that year.<sup>40</sup>

By one estimate, the direct contribution of foreign-born labor to US economic output in 2016 was around \$2 trillion.<sup>41</sup> Although it is difficult to directly measure the effect of immigration on productivity, several studies have found that highly educated immigrants are significant contributors to US innovation.<sup>42</sup> But, with its ability to help supplement and complement our existing labor force with additional skills and talent—creating new entrepreneurial and employment opportunities—immigration policy remains an underutilized tool for ameliorating demographic pressures in the short run and achieving our nation’s economic goals in the long run.

As outlined below and in CED’s *Boosting Immigration: Harnessing Global Talent to Increase US Competitiveness, Innovation, and Prosperity*, there are thoughtful and achievable reforms in the national interest that would modernize US immigration.<sup>43</sup> Policymakers should endeavor to ensure that the US has a system in place capable of attracting and selecting the additional talent employers need, making the US the preferred choice of the most in-demand migrants, and capturing the potential gains from increased innovation—all while preserving the unique American characteristics and advantages of our current approach.

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Find more details on these and other policy recommendations in [Growing the American Workforce](#) and [Boosting Immigration](#).

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## Endnotes

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- 43 Boosting Immigration: Harnessing Global Talent to Increase US Competitiveness, Innovation, and Prosperity, CED, January 2020.

## SUSTAINING CAPITALISM

Achieving prosperity for all Americans could not be more urgent. Although the United States remains the most prosperous nation on earth, millions of our citizens are losing faith in the American dream of upward mobility, and in American-style capitalism itself. This crisis of confidence has widened the divide afflicting American politics and cries out for reasoned solutions in the nation's interest to provide prosperity for all Americans and make capitalism sustainable for generations to come. In 1942, the founders of the Committee for Economic Development (CED), our nation's leading CEOs, took on the immense challenge of creating a rules-based post-war economic order. Their leadership and selfless efforts helped give the United States and the world the Marshall Plan, the Bretton Woods Agreement, and the Employment Act of 1946. The challenges to our economic principles and democratic institutions now are equally important. So, in the spirit of its founding, CED, the public policy center of The Conference Board, will release a series of 2020 Solutions Briefs. These briefs will address today's critical issues, including health care, the future of work, education, technology and innovation, regulation, China and trade, infrastructure, inequality, and taxation.



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