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DEMOGRAPHIC DECLINE APPEARS IRREVERSIBLE. HOW CAN WE ADAPT?

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During the peak of the baby boom, American women were having an average of 3.6 children — far above the rate of 2.1 needed to keep our population stable. This population explosion grew our labor force, paying a significant demographic dividend that boosted economic growth throughout the 20th century. But that boom is now over, and it has been replaced by a trend of declining fertility and increased lifespans.

Policy experiments have failed to reverse the aging of our population, but public policy can and should help society adapt to our new demographic reality. That will require action across every dimension: fiscal sustainability, immigration, and investment in innovation — areas where recent political leadership has too often moved in the opposite direction. Policymakers today have an opportunity to change course and put the country on a path to meet the demographic challenges ahead.

DEMOGRAPHIC DECLINE IS HAPPENING, WITH BOTH COSTS AND BENEFITS

The American total fertility rate (TFR) dropped below the replacement level of 2.1 children per mother in 2008 and has been steadily declining since.

Economic and social development — the broad trends responsible for declining fertility — are largely worth celebrating. For example, more than half of the drop in America's TFR since 1990 is attributed to a significant decline in childbirth among women under 19. The sharp reduction in unintended teen pregnancies in the past 30 years both reflects and reinforces women's ability to exercise independence and autonomy over their lives to pursue education or careers. More broadly, demographic transition — the process by which societies transition from high mortality, high fertility ones to low mortality, low fertility ones — leads to healthier, more educated, and richer lives than in the past.

But demographic decline will alter American demography in profound ways over the next 50 years. According to the U.S. Census Bureau's 2023 projections, the population of Americans under 25 will peak around 2030 before beginning to shrink. With fewer young people entering the population and people living longer, the share of Americans over 65 is expected to climb from 17% today to nearly 30% by 2080. That shift will steadily push up the ratio of retirees to working-age adults — a trend that began in 2010 after two decades of stability. Based on these same projections, the Congressional Budget Office estimates that the nation's rate of natural increase (births minus deaths) will reach zero by 2035. Together, these changes set the stage for the total population to peak around 2080 and then decline slowly thereafter. All of these projections describe a society with decreasing mortality and fertility, a growing population of retirees, and a shrinking workforce to keep them afloat.

The economic costs associated with a graying population are significant. First is the simple math: a shrinking workforce and a growing number of retirees will put a strain on standards of living. Aging will require higher taxes, later retirements, lower real returns for savers, and worsen our fiscal position. The IMF has estimated that rich countries will need to spend 21% of annual GDP on retirees by 2050, up from 16% in 2015. Demographic factors are the biggest drivers of Social Security's projected shortfall, and are the primary reason we can no longer afford our generous retirement benefits at current tax rates.

Beyond the math, though, is a deeper problem: aging societies also have much poorer prospects for economic growth. Young people have higher levels of "fluid intelligence" — the ability to creatively solve problems in novel ways. This can be seen in patent filings: innovations filed by the youngest inventors are significantly more likely to represent breakthroughs. These effects add up. Aging is a major factor in the declining business dynamism and creative destruction. With fewer young workers entering the labor force, fewer new businesses are started, and existing companies face less competition. Over time, that means markets become dominated by a smaller number of large firms, which tend to be slower to innovate. This shift explains much of the long-term drop in the U.S. startup rate since the late 1970s and, in turn, contributes to slower economic growth and lower living standards.

POLICY EXPERIMENTS HAVE FAILED TO REVERSE THE TREND

In the United States, there has been significant debate over how to respond to declining fertility. Conservatives tend to see falling birth rates as rooted in declining marriage rates, secularization, and modern feminism. Accordingly, they believe the right response is to promote and subsidize childbearing and marriage, expand home schooling and religious education, and reverse the social changes they blame for the trend. Progressives view declining fertility as a symptom of affordability challenges and the difficulty of raising children, which they seek to address through cost-of-living subsidies, universal paid maternity leave, and a Biden-era vision for the care economy. The intersection of these perspectives has produced some bipartisan momentum for pro-family policy, reflected in the repeated expansion of the Child Tax Credit and other benefits.

The United States is hardly unique in this regard. Policymakers around the world have proposed a variety of different interventions that attempt to reverse declining fertility rates and the associated economic costs. More than three times as many countries have pro-natal policies today as did 50 years ago, policies which include more generous parental leave, subsidized childcare, child or family allowances, tax credits, and baby bonuses.

There's a good case to be made for many of these benefits. Raising children is expensive, and because children generate positive spillovers for society — growing the future workforce, tax base, and pool of caregivers — it makes sense for the government to help defray some of the cost. Doing so can remove a major financial barrier for couples who want children but hesitate because of the expense. The 2021 CTC expansion, for example, dramatically reduced child poverty, which resulted in improved nutrition, more investments in education, and less reliance on high-risk debt.

But the truth is that policymakers likely can't put the genie of below-replacement fertility back in the bottle. France, for example, has tried to boost birth rates through a mix of supports for parents and families: heavily subsidized childcare from infancy through preschool, generous family tax deductions, monthly cash allowances for each child, and pension bonuses for parents who raise multiple children. These benefits are estimated to cost an eyewatering 3.5-4% of annual GDP in return for an estimated increase of 0.1-0.2 births per woman. In 2023, fewer children were born in the country than at any point since World War II.

It's not just France, either. At no point have these policies generated the persistent and large effects on fertility that would be necessary to return to anything close to replacement level growth in the long term. In no country where lifelong fertility rates have fallen well below 2.1 have they ever returned above it.

All that said, it's worth noting that the history of humanity is a history of innovating our way out of seemingly intractable social problems. To students of the past, warnings of declining population may mirror dire Malthusian prophesies of excessive population growth and resource scarcity, which did not come to pass. Novel policy experiments and technological advances may yet prove effective in mitigating the effects of declining birth rates. But absent new evidence to suggest that population decline or its consequences are reversing, public policy must shift to adaptation.

HOW POLICYMAKERS CAN ADAPT

Despite our limited prospects of reversing population decline, there are ways policymakers can and should mitigate its effects. The first is modernizing our fiscal policy. An aging population strains the federal budget from both directions: it slows economic growth by reducing the size of the workforce, and it raises spending on programs like Social Security and Medicare. That combination means deficits will grow faster unless we raise more revenue or cut benefits. Waiting to act makes the tradeoffs harder — tax hikes or benefit cuts will have to be steeper if they're implemented when large debts carry large interest costs. The sooner we stabilize the debt, the less painful the adjustment will be.

Without reform, both Social Security and Medicare will face the exhaustion of major trust funds as soon as 2032, which will result in across-the-board benefits cuts of up to 24%. To save Social Security, policymakers should start by modernizing the benefit formula to slow the growth of benefits for those with higher lifetime earnings while strengthening protections for low-income workers. PPI recently proposed one framework for doing so that would make the program more progressive, improve incentives to work longer, and better align benefits with the realities of an aging population.

Medicare faces similar fiscal pressures. Spending on the program as a share of GDP is projected to rise by 70% over the next 30 years, with roughly one-third of the increase driven by demographic change alone. As our population growth slows, now is the time to prepare. Reforms should focus on cost control — moving away from fee-for-service toward value-based care, accelerating adoption of accountable care organizations, reducing hospital readmissions, and strengthening tools to manage prescription drug spending. PPI has previously proposed even more comprehensive and ambitious reforms to modernize Medicare and control the cost of health care more broadly.

Even with these cost-saving measures, Social Security and Medicare will need more revenue to become sustainable. That revenue should be raised in a way that is as progressive as possible without harming economic growth, but the reality is that the shortfall is simply too large to close by taxing only the wealthy. PPI has argued that broad-based consumption taxes are more growth-friendly and fairer than higher payroll taxes because they exempt neither high-earning nor retired Americans. Since all Americans benefit from these programs, they should be financed in part by taxes that everyone pays. A balanced package of revenue and cost control — with protections for the poorest Americans — will be essential to preserve these pillars of economic security in an era of slower labor-force growth.

More legal immigration can also help make the budget challenge easier to solve by increasing the size of our working-age population. The United States has long had a unique advantage as a nation of immigrants, attracting far more people who want to move here than most other developed countries. That includes foreign students, many of whom stay and contribute to our economy. In addition to improving the worker-to-retiree ratio, immigrants can boost economic dynamism because they are disproportionately innovative and entrepreneurial. As of last year, 46% of Fortune 500 companies were founded by immigrants or their children, the highest level since tracking began in 2011. While the world as a whole can't immigrate its way out of population aging, the United States can capture a larger share of this global talent pool to help offset the costs in the medium term. PPI has proposed to accomplish this goal by moving towards a "demand driven" immigration system that would prioritize immigrants who fill labor shortages rather than those who fall into other visa categories.

But it is essential that any effort to increase legal immigration be paired with robust border security measures and a crackdown on illegal immigration. Large, rapid increases in immigration can create real challenges — such as strains on housing supply, public services, and infrastructure; difficulties with cultural and economic integration; and political backlash if the public feels the pace of change is too fast. Unchecked illegal immigration in recent years has been especially pernicious: it overwhelmed the asylum system, strained the resources of cities coping with rapid arrivals, and contributed to a profound public sense of disorder on the border. Failure to grapple with these challenges in the past has provided rocket fuel for the rise of far-right populism throughout the West, and that consequence will ultimately outweigh any potential gains of a more accommodating immigration policy.

To sustain growth in the face of demographic headwinds, the United States should also double down on two proven drivers of productivity: education and research. That means reversing the long slide in federal R&D funding as a share of GDP, with targeted investments in areas like advanced manufacturing, clean energy, and biomedical research. It also means modernizing our workforce training system so midcareer workers can transition into high-demand fields more quickly, ensuring that a smaller labor force is a more skilled and adaptable one. A new "earn and learn" system — offering paid, work-based pathways as a genuine alternative to traditional college — would ensure a smaller labor force is also a more skilled and adaptable one.

TRUMP IS MAKING THE PROBLEM WORSE

Unfortunately, on all these fronts, President Trump and the MAGA Republicans are pursuing an agenda that is the exact opposite of what we need.

The budget-busting One Big Beautiful Bill added roughly $4.1 trillion to the national debt over the next ten years and accelerated Social Security's insolvency. Independent analyses from the Congressional Budget Office, Penn-Wharton Budget Model, and EY all show that this added debt will ultimately shrink our future economic pie. At the same time, his agenda will ensure that pie is less evenly divided: a new analysis from the Yale Budget Lab shows Trump's agenda will reduce the post-tax-and-transfer incomes among the bottom 80% of U.S. households while boosting the incomes of the richest Americans.

President Trump's immigration agenda also worsens our demographic and fiscal challenges. New data from the Current Population Survey shows an unprecedented 2.2 million decline in the total foreign-born or immigrant population in the first half of this year, largely due to the administration's agenda of mass deportation. Although better enforcement of immigration law was obviously necessary after large-scale illegal immigration in recent years, Trump's open hostility to even law-abiding immigrants shrinks the future workforce, weakens our tax base, and deprives the economy of the entrepreneurial energy and innovation that immigrants disproportionately provide. At a time when an aging population demands more workers to sustain growth and fund retirement programs, haphazardly closing the door to talent makes the looming demographic crunch even harder to manage.

Trump's attacks on research and education — the fundamental engines of American growth — further compound the consequences of demographic decline. His administration has sought to slash basic research funding and already halted or canceled more than $1.5 billion in active research grants. Trump's budget would slash the Department of Education by 15%, cut programs serving vulnerable students, and lay off nearly half its staff, putting him one step closer to his ultimate goal of getting rid of the Department altogether. Another $900 million cut to education research and data systems will hinder efforts to direct resources to high-need schools. In an aging America with fewer young workers to boost productivity, undermining investments in science, innovation, and education makes the demographic challenge even harder to overcome.

Although recent policy developments have worsened our ability to handle demographic decline, it isn't inherently a crisis. Policymakers still have powerful tools — fiscal reform, new immigration laws, and robust scientific research — to boost growth and meet this demographic moment if they choose to. The real crisis will only come if we fail to adapt.