Some Aging Nations Look to Immigration to Avert Economic Squeeze

If you've ever wondered how the U.S. population could increase by almost 60 percent — to more than 300 million people — between the 1965 and 2010 national censuses, **look no further than the Hart-Cellar Act**, which ended a century-old policy of discriminating against non-northern European immigrants.

About half of the U.S. population growth over the last 45 years can be attributed to immigrants and their descendants, a demographic flood that has forever changed the nation. Today, one in five Americans is either first- or second-generation U.S. residents, **according to the Census Bureau**.

During roughly the same period, the population of Japan increased about 30 percent, to almost 128 million. Only about 2.1 million were immigrants, according to **Japan's National Institute of Population and Social Security Research**.

Japan also happens to be the oldest nation in the world and has **one of the lowest fertility rates**, according to the CIA Fact Book. After years of marginal growth, according to national census data, the population is now actually shrinking, experts say.

As striking as that is, Japan is not alone. Italy, Monaco, Greece and Germany have similar demographic profiles, according to a variety of statistics, and South Korea is likely to resemble Japan in a generation if dramatic changes are not undertaken.

The difference between these countries and the U.S.? Immigration policies.

"Countries that have traditionally been destinations for large immigration tend to have younger populations," said Jacob Kirkegaard, a senior fellow at the Peterson Institute for International Economics. "There is another link, which is probably more important for the preparation of the aging, and that's if you have a relatively liberal immigration policy you tend to have relatively higher fertility rates. Also, having a fairly liberal economy, open labor markets, easy access and an economy that is relatively flexible is often reflected in immigration policy."

This human dynamic may seem merely like demography's ultimate case study, but it also has enormous implications for the economic health of nations and the quality of life of their citizens.

"An aging population means a decline in the labor force," Kirkegaard added, reflecting a widely held opinion among experts. "It lowers potential [economic] growth rates. Where it becomes very problematic is the impact it has on social spending."

Countries from North America to Europe to Asia-Pacific are **grappling with this demographic time bomb**, which **threatens the sustainability of national pension** and **health-care systems**, and is prompting fundamental changes to retirement law and labor markets. For some developed nations, the problem will get much worse before it gets even a little better.

For instance, according to the U.S. Census Bureau, the European Union will experience a 14 percent decrease in its workforce and a 7 percent increase in its consumer populations by 2030.

A European Commission study shows that countries are not only **raising the retirement age, but are also introducing a contingency clause** that changes the size of the pension benefit based on expected demographic changes such at the time of retirement.

At the same time, countries such as Italy and Germany have liberalized immigration policy on top of the changes that came with the launch of the European Union's single currency a dozen years ago, which opened borders to workers across a wide swath of member states.

Others, such as Japan and South Korea, however, have barely budged. (*Read more*: **China's Aging Problem)**

"Immigrants come in at the prime of their youth," said Madeleine Sumption, a senior policy analyst at the Migration Policy Institute, MPI, who specializes in labor markets "These people have a whole working life ahead of them. They earn an income and pay taxes, which helps the shortfall in public finances."

Statistics from the Organization for Economic Cooperation and Development illustrate the disparity among its member countries.

Over the 2000-2010 period, **the percentage of immigrant workers, known as foreign worker inflows**, in Japan and South Korea was relatively flat at 0.3 percent and 2.2 percent, respectively. (*Read more:* **Investing in Aging Asia**.)

In contrast, inflows to Italy, Spain and the U.K. rose between 200 percent and 400 percent.

Italy recently overtook the U.S. in the pace of net migration, ranking among the top 25 in the world, according to the CIA Fact Book. Japan and South Korea ranked in the low 90s with no statistical growth in net migration.

“The European countries realize they need more workers,” said Nicholas Eberstadt, a political economist and demographer at the American Enterprise Institute, AEI. “Immigration augments the labor pool and changes the ratio between workers and retirees.”

These structural changes, which experts said are often unpopular, combined with immigration, can make a demographic difference. Such policies, however, must remain in place for long periods of time because second-generation immigrants usually adapt to local custom, which means smaller family sizes. Thus, new waves of immigrants are needed. The U.S., Australia and Canada are good examples of this dynamic.

Kirkegaard of the Peterson Institute added that most countries still need a “more strategic immigration policy,” such as one that brings in scientists and engineers, and also keeps track of “changing trends in the labor markets.”