

**RECENT DEMOGRAPHIC SHIFTS:
WHAT DO THEY MEAN FOR THE U.S. AND NEW MEXICO?**

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It is now almost two and a half years since most of us in this room were receiving our Census 2000 questionnaires in the mail. Conducting a complete census every ten years is something that is required by our Constitution. It plays a key role in our democratic system by ensuring that each state and locality has a voice in government proportional to its population. And at a more mundane level, it helps determine how the funds for many state and federal programs are distributed across areas. But the census is also the single most important source of information we have about major demographic shifts affecting the long-term performance of our economy.

Tonight I would like to focus on three such demographic shifts. The first is the aging of the population, which will soon take a dramatic leap forward as the baby boomers begin to reach retirement age. The second demographic shift is the surge in immigration from abroad—an inflow that rivals in magnitude the last great wave of migration from Europe in the early 1900s but comes this time from developing countries in Asia and especially Latin America. Last but not least is a population trend of special interest to New Mexico--the migration of people within the U.S. from the Northeast and Midwest to the Southeast and the Mountain states.

In my talk I will describe each of these shifts in some detail and discuss their implications for both New Mexico and the nation. Before doing that, however, I want to set the stage by summarizing what Census 2000 has told us so far about population growth in New Mexico. I

say what the Census has told us “so far,” because even after two and a half years, some important details have still not been released to the public.

Census 2000 results for New Mexico

Let’s start with the growth of the state’s total population (Chart 1). To no one’s surprise, population continued to grow faster in New Mexico than the nation between the two census years—20.1 percent in New Mexico versus 13.2 percent in the U.S. Among the 50 states, New Mexico ranked 12th, putting it in the top quarter. States in the west and south gained the most population during the decade, while states in the northeast and the middle of the country gained the least. Interestingly, however, no state lost population—the only decade in the twentieth century that happened.

New Mexico not only grew faster than the nation in the 1990s, but also grew somewhat faster than in the 1980s, when the state’s economy was hard hit by the twin slumps in energy and agriculture (Chart 2). For people who would like to see New Mexico play a bigger role in the national economy, that’s the good news. The bad news is that population growth in New Mexico has slowed from the 1970s, when it was more than twice as high as in the nation.

Such statewide data can conceal important differences in population growth across communities. In the case of New Mexico, however, the population gains of the 1990s were fairly widespread, with both rural and urban areas enjoying big gains (Chart 3). In sharp contrast to some other states in our district, such as Kansas and Nebraska, only four rural counties in New Mexico lost population over the decade—the ones colored yellow in the chart. Also, 14 counties in the state saw their population increase more than 20 percent—the ones colored purple in the map. Not surprisingly, four of these fast-growing counties were located in the state’s three

major metro areas—Albuquerque, Santa Fe, and Las Cruces. More remarkable is that the other 10 fastest-growing counties were all located *outside* the state's metro areas.

While the Census 2000 data suggest population growth has been strong in New Mexico over the last decade, the Census Bureau's annual population estimates suggest the recent trend has not been so favorable (Chart 4). In particular, these data indicate that most of the population growth in New Mexico during the 1990s occurred in the first half of the decade. After peaking at almost 3 percent per year in 1994, the state's population growth has steadily declined. In fact, the Census Bureau estimates that New Mexico's population growth fell below the nation's after 1996. That's only the second time in the last 30 years that New Mexico has grown slower than the nation, the other time being during the slump of the 1980s. The explanation for this turn of events appears to be a slowdown in migration from other states, a topic I will return to later in my talk.

Aging of the population

Having summarized the Census 2000 results for New Mexico, I would like to step back now and discuss some broader demographic trends with important implications for the future. The first of these shifts is the aging of the population. One of the most dramatic population shifts in this century was the baby boom—the birth of 76 million children between the years of 1946 and 1964 (Chart 5). The aging of these baby boomers accounts for the sharp increase in people aged 35 to 54 during the 1990s. In both New Mexico and the U.S., this age group grew faster than any other during the 1990s—more than 30 percent in the U.S. and more than 40 percent in New Mexico. In another 10 years, the oldest members of this group will reach 65, and for the next twenty years the proportion of the population age 65 and over will increase

dramatically in both New Mexico and the U.S. Adding to the increase in the elderly population in New Mexico will be the continued inflow of retirees from other parts of the country--an inflow that caused population in the two oldest age groups to grow more than twice as fast in New Mexico as the nation during the 1990s.

This projected increase in the elderly population might not be a problem if the working age population increased at the same rate. But the baby boom was followed by a baby bust, and for a variety of reasons women are now having fewer children. As a result, the working-age population is expected to grow only modestly at the same time the elderly population is surging. The combined effect of these trends will be to produce a sharp increase in the old-age dependency ratio, the ratio of the elderly population to the working-age population (Chart 6). Based on current population trends, the Social Security Administration projects that the aging of baby boomers will sharply boost this ratio between 2010 and 2035. The old-age dependency ratio will level off for a few years after the baby boomers die. But the ratio will then resume climbing at a steady rate, as fertility among women remains low and medical advances raise life expectancy. By the year 2075, the old-age dependency ratio will have doubled to 0.4, which means that there will be four elderly people for every ten working-age people.

To the extent the rise in the old-age dependency ratio reflects an increase in life expectancy, it is a development to be welcomed. The increase in the dependency ratio does raise the question, however, whether we as a society will be able to support the elderly without a decline in our standard of living. As a matter of simple arithmetic, the labor force will have to become more productive, people will have to retire later, or some group—either the elderly or the working age population—will have to consume less.

The aging of the population also has highly adverse implications for the long-term budget outlook (Chart 7). Government spending is far greater for the elderly than for any other age group including children, reaching almost \$23,000 per person by age 82. Furthermore, most of the spending occurs through federal programs such as Medicare, Social Security, and Medicaid. Because benefits for the elderly are so high, the sharp increase in the elderly population beginning in 2010 will boost government spending sharply (Chart 8). Under current policies, the Congressional Budget Office projects that spending on Social Security, Medicare, and Medicaid will rise to 15 percent of GDP by the year 2030, almost double its current share. Assuming we do not cut back on benefits for the elderly, the increased spending will have to be financed in one of two ways, neither of which is very attractive—by borrowing from the public and increasing government debt, or by raising taxes on the working age population.

Are there any ways out of this dilemma? Most economists would probably agree that the single most important thing we can do to maintain our standard of living and avoid big deficits down the road is to increase national saving. Such an increase in national saving would free up resources for private businesses to invest in new plant and equipment, expanding the economy's productive capacity and increasing output per worker. Where economists differ is on the best way to achieve such an increase in national saving. Some argue that the federal government should run big budget surpluses during the next ten years, which under current forecasts would require either an increase in taxes or a reduction in government spending. Others argue that people should be encouraged to save more themselves by creating a system of private retirement accounts that at least partially replaces Social Security benefits. Such a system of private accounts raises many thorny issues, however, such as what to do about people who end up with

no retirement income because they made unwise or unlucky investment decisions. Thus, it remains to be seen whether the country will be able to agree on a way to increase national saving before the baby boomers begin to retire and the old-age crisis hits.

Immigration

Let me turn next to the second major demographic shift—the increase in immigration. The last great wave of immigration was in the late 1800s and early 1900s (Chart 9). Large numbers of people came to this country from eastern and southern Europe, causing the number of foreign born to swell to 14 million in 1920. Congress then imposed strict limits on new immigration based on national origin, causing the number of foreign born to steadily decline over the next several decades. In 1965, Congress again changed course, abolishing the system of quotas based on national origin and establishing a new worldwide quota system giving priority to immigrants with relatives already in the U.S. The new legislation led to a sharp increase in immigration, especially from developing countries in Asia and Latin America where wages were much lower than in the U.S. More people also began to enter the country illegally, crossing the porous border between the U.S. and Mexico. As a result, the number of foreign-born in the U.S. turned back upward after 1970. By the year 2000, the number of foreign-born had reached 31 million. That figure represented 11 percent of the total population, less than in the late 1800s and early 1900s but more than twice as high as in 1970.

The foreign-born population has also increased greatly in New Mexico over the last three decades, though they still represent a smaller share of total population than in the U.S. as a whole (Chart 10). According to the recent census, there were almost 150,000 immigrants living in the state in 2000, accounting for just over 8 percent of the total population. That was up

considerably from 1990, when there were only 80,000 immigrants in the state, representing a little more than 5 percent of the total population.

As I mentioned earlier, much of the recent immigration to the United States has been from Latin America and from Mexico in particular. Given New Mexico's Hispanic heritage and location on the border, it comes as no surprise that Mexico accounts for an even higher percentage of this state's recent immigrants (Chart 11). Among those immigrants who lived in New Mexico in 2000 and entered the country sometime during the previous ten years, over seven out of ten were born in Mexico—more than twice as high a percentage as in the nation as a whole. In contrast, Asia and Europe were only half as important a source of immigrants to New Mexico as to the nation during the decade.

Where in New Mexico are the immigrants settling? Immigrants to this country have traditionally settled in urban areas, because these areas not only have more employment opportunities but also established immigrant communities to draw upon for support. While immigrants have shown more willingness to locate in rural areas over the last decade, most continue to move to cities—both in the nation as a whole and in New Mexico (Chart 12). Of the state's three major metro areas, immigration has been most important in Las Cruces, adding close to 10 percentage points to the city's population growth during both the 1980s and 1990s. In the state's other two metro areas, immigration has been a more recent phenomenon, contributing much more to population growth in the 1990s than the 1980s—about 8 percentage points in Santa Fe and 4 ½ percentage points in Albuquerque.

Experts disagree sharply whether immigration at current levels is good or bad for the national economy. The issue came to the fore a year ago because of discussions between

President Bush and President Fox of Mexico about a possible amnesty for undocumented immigrants and temporary worker program for Mexicans. These discussions were put on hold after the terrorist attacks of September 11, and for now the INS appears to have as much as it can handle without taking on major new initiatives. The issue will not go away, however, making it likely that negotiations between the U.S. and Mexico will eventually resume in earnest.

Some people argue that the country needs high levels of immigration to keep the labor force growing and ensure that there are enough working-age people to support the growing elderly population. Because most new immigrants are young adults, the immediate effect of their arrival in this country is to reduce the old-age dependency ratio—the ratio of the 65-and-over population to the working-age population. However, these immigrants not only have children who must be supported, but at some point they add to the elderly population by retiring themselves. Economists who have tried to take all these effects into account have generally concluded that immigration will limit the rise in the old-age dependency ratio and alleviate the fiscal problems caused by an aging population. However, they also find that the net benefit from each additional immigrant is relatively small. Thus, while there may be good reasons to allow high immigration, solving the problems of an aging population is probably not one of them.

One reason economists have found that high levels of immigration do little to solve the problems of an aging population is that immigrants tend to have fewer years of education and hold lower-paying jobs than native-born residents (Chart 13). In 2000, a third of the foreign-born population aged 25 and over had failed to complete high school, twice as much as the native-born population of that age. And for immigrants born in Mexico, the percentage who had not finished high school was even greater—almost two-thirds.

The low average level of education of recent immigrants has also led to concerns that immigration might be depressing wages for unskilled native workers, many of whom are already close to the poverty level. The evidence on this point is mixed, however. Immigration supporters argue that the jobs taken by immigrants are often jobs native-born workers do not want. They also point out that wages for unskilled workers do not tend to be any lower in cities with high rates of immigration. Immigration opponents counter that the only reason unskilled wages have not fallen in these cities is because unskilled native-born workers have migrated to other cities with fewer immigrants, causing the impact of immigration on unskilled wages to be spread over a much wider area.

Of course, even if unskilled and poorly educated natives are hurt by recent immigration, other groups in the economy may benefit. One such group are the people who consume the goods and services produced by immigrants—for example, the people who are able to buy meat at lower prices because immigrants perform physically demanding jobs in meat-packing plants, or the people who do not have to pay as much for hotel stays or fast food because immigrants take unskilled jobs in the lodging and restaurant industries. A second group that benefit from immigrants are the companies that employ them—companies that might earn lower profits or even go out of business if they could not hire immigrants.

Given this state of affairs, with some groups in the economy losing from immigration and others receiving important benefits, it is easy to see why the issue of how many and what kind of immigrants to admit is such a contentious one. What does seem clear, however, is that no matter how many immigrants we decide to allow into the country in the future, high priority should be given to educating the children of immigrants who are already here. That is the best way to

ensure that second-generation immigrants do not suffer the same economic and social handicaps as their parents and that they make the maximum possible contribution to the long-run performance of the economy.

Migration of People to the West and Southeast

The last demographic shift I want to discuss is the movement of the native-born population to the West and Southeast from the Midwest and Northeast. This migration has been going on for some time and according to the latest census, continued in the 1990s. In the map of the U.S. that I showed you earlier, the fastest growing states in the 1990s were all in the West and Southeast. In some of those states, population growth was boosted by high immigration from abroad or by high birth rates. Most of the growth, however, was due to people moving from other states. A number of factors have accounted for this massive migration from the Northeast and Midwest to the South and West during the last several decades, including lower business costs and favorable climates. During the last fifty years, New Mexico has been one of the states most affected by this population shift, enjoying a population gain of 167 percent between 1950 and 2000, the ninth biggest in the nation.

The substantial in-migration from other states is also reflected in the high percentage of people in New Mexico who were born out-of-state (Chart 14). According to the latest census, 40 percent of people living in New Mexico in 2000 were born in another state. That was the sixteenth highest percentage in the nation--less than in the neighboring states of Colorado and Arizona, where over half the population was born in another state, but higher than in the nation as a whole, where only 29 percent of the population was born in a different state.

While New Mexico has enjoyed substantial in-migration over the last fifty years, the pace has definitely slowed (Chart 15). During the 1970s, the increase in people born in another state contributed almost 18 percentage points to population growth in the state's three major metro areas. By the 1990s, the contribution to urban population growth from people born in another state had fallen to 6 percentage points. For the state's rural areas, the out-of-state contribution to population growth was also lower in the 1990s than the 1970s, though not nearly as low as in the 1980s, when the energy and agriculture busts caused a large outflow of people from rural areas.

To be sure, New Mexico did experience a substantial inflow of people during the early 1990s, when the Intel expansion sparked a construction boom in Albuquerque and the downturn in the California economy caused a large outflow of people from the state to other parts of the country. By the second half of the decade, though, the construction boom in Albuquerque was over and the California economy had recovered. As a result, fewer people moved into New Mexico and some of the people who came here to take construction jobs left in search of new employment.

Further evidence that in-migration to the state has slowed comes from the Census Bureau's estimates of population changes since the 2000 Census. Those estimates show the state suffering a net out-migration of over 12,000 people from April 2000 to July 2001. Some experts think the Census Bureau overestimated the outflow of people from the state, given that the local housing market remained fairly strong during this period. Nevertheless, the migration to New Mexico from other states has clearly slowed a good deal from twenty or thirty years ago.

Despite the recent slowdown, New Mexico seems likely to continue attracting a steady inflow of people from other states over the long run. The state's healthy climate and low cost of

living have already helped it become a magnet for retirees, helping explain the rapid growth in the over-65 population that I pointed out earlier. There is every reason to expect this inflow to increase as baby boomers search for inexpensive and attractive places to retire and as older retirement destinations like Florida become more crowded.

For younger age groups, in-migration will depend more heavily on job creation. Fortunately, the same factors that make New Mexico an attractive place to live also make it a good place for firms to locate, because firms know they will always be able to attract workers from other states as their business expands. To be sure, there has been concern in New Mexico that the jobs that have been created recently are low-paying ones such as call center jobs rather than high-paying manufacturing jobs or professional and technical jobs. Because of the national labs, however, New Mexico has a larger pool of scientists and engineers than most other states. These highly skilled workers can collaborate with private firms or start their own-high tech businesses in the state—something that was beginning to happen before the high-tech sector fell into a severe slump. Thus, when the high-tech sector eventually rebounds, New Mexico should be well positioned to add the kind of higher-paying jobs that every state would prefer.

Summary

Let me conclude by briefly summarizing my remarks. I began by highlighting the major results of Census 2000 for the state of New Mexico. We saw that population continued to grow faster in New Mexico than the nation over the 1990s as a whole, with both urban and rural areas in the state sharing in the gains. We also saw, however, that population growth slowed in New Mexico after the mid 1990s, falling below growth in the nation by the end of the decade. I then went on to describe three major demographic shifts that are now underway. First was the aging

of the population, which will make it harder for the U.S. to maintain its standard of living and fiscal balance. Second was the increase in immigration. I concluded that this trend might help offset some of the adverse effects of an aging population, but not enough to make a big difference due to the fact that recent immigrants tend to have less education and fewer job skills than natives. The last shift I discussed was the continued migration of people within the United States from the Northeast and Midwest to the West and Southeast--a population trend that has boosted New Mexico's growth greatly over the last fifty years but to a lesser degree lately.

These shifts present difficult challenges. In the course of my talk, I have suggested some possible responses to the first two shifts, such as raising national saving so as to increase the economy's long-run capacity to provide for the elderly, and giving high priority to educating the children of immigrants to ensure they contribute to the economy. I have also suggested that despite the recent slowing of in-migration, New Mexico's high quality of life and concentration of scientists and engineers should ensure that it continues to attract people and firms from other parts of the country. There may be other responses to the demographic shifts I have been discussing. The important thing at this point is that we recognize the shifts are underway and begin thinking about how to deal with them.