

RECENT DEMOGRAPHIC SHIFTS: WHAT DO THEY MEAN FOR THE U.S. AND THE REGION?

William R. Keeton
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About two years ago, 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 two 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 Latin America.

In my talk I will describe each of these shifts in some detail and discuss their implications for Kansas, Missouri, 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 Kansas and Missouri. I say what the Census has told us “so far,” because many of the important details will not be released to the public until later this year.

Census 2000 results for Kansas

Let's start with the growth of total population in the two states (Chart 1). To no one's surprise, population turns out to have grown slower in Kansas and Missouri than in the nation since the last Census in 1990—around 9 percent in Kansas and Missouri versus 13 percent in the U.S. Among the 50 states, Missouri ranked 30th and Kansas 35th, putting them both squarely in the bottom half. 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.

The next chart compares population growth in Kansas and Missouri with population growth in the U.S. over the last three decades (Chart 2). While Kansas and Missouri grew slower than the nation in the 1990s, they both grew considerably faster than in any of the previous two decades. That's the good news. The bad news is that population growth in Kansas and Missouri has consistently fallen short of U.S. population growth, and that the gap was not a whole lot smaller in the 1990s than it was in the 1980s.

Although Kansas and Missouri both failed to keep up with the nation during the 1990s, they did so for different reasons (Chart 3). This chart shows that Missouri's below-average population growth reflected modest growth in the state's urban areas, which grew quite a bit faster in the 1990s than in the previous decade but still lagged the nation by a considerable amount. In contrast, urban areas in Kansas actually gained population at a slightly faster rate than urban areas nationwide during both the 1980s and the 1990s.

Turning to rural population growth, the positions of Kansas and Missouri are reversed, with Missouri comparing very favorably with the nation but Kansas falling far behind (Chart 4). On the positive side, the rural population of Kansas did increase modestly in the 1990s after decreasing in the 1980s, when many farming communities were hard hit by the slump in agriculture. The fact remains, however, that rural population growth in Kansas has not only been much slower than urban population growth during the last three decades, but has also been much slower than rural population growth in the nation as a whole. In sharp contrast, Missouri's rural population grew a strong 11 percent in the 1990s, just matching rural population growth in the country as a whole.

To be sure, such statewide data can conceal important differences in population growth across communities (Chart 5). Among urban areas in the two states, Springfield, Lawrence, Columbia, and Joplin all grew faster than the national average, Wichita and Kansas City both grew a little slower, and Topeka, St. Joseph, and St. Louis all grew a lot slower than the national average. There were also important differences within metro areas, including Kansas City (Chart 6). In a pattern typical of big urban areas in the north and midwest, central city neighborhoods in Wyandotte and Jackson counties either lost population or grew very little. In contrast, outlying counties such as Johnson, Cass, and Platte enjoyed population increases close to 30 percent. This divergence in population growth between old central cities and new fast-growing suburbs helps explain why urban population growth has been slower in Missouri than in Kansas. Most of the central city populations of Kansas City and St. Louis lie within Missouri, pulling down that state's urban population growth. And at the same time, some of Kansas City's fastest growing suburbs lie on the Kansas side, boosting that state's urban population growth.

Differences in population growth were even more pronounced across rural counties in Kansas and Missouri than across metro areas (Chart 7). Looking first at Kansas, you can see that well over half the state's rural counties lost population over the decade—those colored yellow in the map. Many of these counties are dependent on traditional agriculture and have suffered a steady outflow of younger people to urban areas as farms have become larger and more mechanized. At the other extreme, however, some counties in Kansas grew more than 10 percent—those colored medium or dark purple. These fast-growing counties in rural Kansas included two groups—those in the southwest that specialize in feedlots, dairies, and meatpacking plants, and those in the northeast that are adjacent to booming metro areas like Lawrence and Johnson County. Finally, some counties in Kansas just managed to hold their own during the 1990s, growing somewhere between 0 and 10 percent. These counties are colored gray in the map. Many of them have towns that serve as regional hubs for retail, financial, and health care services. A few have succeeded in diversifying out of agriculture by attracting rural manufacturers.

Turning to Missouri, there were also remote rural counties in that state that lost population over the decade because they were dependent on traditional agriculture. Compared to Kansas, however, there were a lot fewer of these declining communities and a lot more rapidly growing communities. A few of these rapidly growing rural counties specialized in meat-packing, and a few benefited from their proximity to booming metro areas. Most of the rest owed their success to recreational attractions such as the Lake of the Ozarks and the Branson entertainment complex.

Aging of the population

Having summarized the Census 2000 results for Kansas, 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 the last century was the baby boom—the birth of 76 million children between the years of 1946 and 1964 (Chart 8). The aging of these baby boomers accounts for the sharp increase in people aged 35 to 54 during the 1990s.

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 Kansas and the U.S. This 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 9). 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 10). 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 11). 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 12). 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. The official Census count of the foreign-born for the year 2000 will not be released until later this year. Based on other information, however, the Census Bureau estimates that the number of foreign-born reached 28 million in 2000. That figure represented over 10 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 this region over the last three decades, though they still represent a smaller share of total population than in the U.S. as a whole (Chart 13). Once again, the official count will not be released until later this year. However, the Census Bureau estimates that in 2000, there were almost 150,000 immigrants living in Kansas and more than 160,000 immigrants living in Missouri. The growth in the foreign-born population has been especially pronounced in Kansas. During the last decade alone, the foreign-born population of Kansas has more than doubled, reaching an estimated 5.7 percent of 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. As a result, we can get a further idea of the increased importance of immigrants in Kansas and Missouri by looking at what has happened to the number of Hispanics in the two states--data that were released early last year as part of the first installment of Census 2000 results (Chart 14). During the 1980s, the Hispanic population increased 50 percent in Kansas, about the same as in the nation. That was an impressive rate of growth, but nothing compared to the increase in the state's Hispanic population over the next ten years. During that period, the

Hispanic population of Kansas increased over 100 percent, far surpassing the rate of growth in the nation as a whole. The Hispanic population of Missouri also approximately doubled in the 1990s. However, because Missouri started from a much smaller base, the share of Hispanics in total population was still considerably smaller in Missouri than in Kansas at the end of the decade—just 2 percent in Missouri versus 7 percent in Kansas.

Kansas and Missouri were not alone in experiencing very rapid growth in their foreign-born and Hispanic populations during the 1990s. It used to be that immigrants concentrated in a small group of states led by California, New York, Florida, and Texas. More recently, however, the immigrant population has been growing faster in a number of other states in the mountain west, the Great Plains, and the south. Some of the rapid increase in the foreign-born population in these new immigration states is coming through increased immigration from abroad. But some of the increase also appears to be occurring through immigrants leaving traditional immigration states like California in search of higher wages or lower living costs in other parts of the country. We don't know for sure how much of the increase in the foreign-born population in Kansas and Missouri during the 1990s was due to such redistribution across states, but it seems likely that at least some of it was.

Where in Kansas and Missouri are the immigrants settling? The data we have strongly suggest that immigrants are settling in both rural and urban areas. Of the legal immigrants who came to Kansas from abroad between 1991 and 1998, about two-thirds listed urban areas of the state as their intended residence while the other third listed rural areas. In the case of Missouri, legal immigrants were more

likely to head to urban areas, but more than one-eighth of them still listed rural areas as their intended residence.

Another indication that immigrants are moving into both rural and urban communities comes from the growth in the Hispanic population in the two types of communities. In Kansas, the Hispanic population increased almost exactly the same proportion in rural areas as it did in urban areas—100 percent. And in Missouri, where relatively few immigrants and Hispanics lived in rural areas at the start of the decade, the Hispanic population grew almost twice as fast in rural areas as urban areas during the 1990s.

Not surprisingly, much of the growth in the rural immigrant population of Kansas and Missouri has occurred in counties with meatpacking plants or feedlots, where demand for workers has been high (Chart 15). To give some idea how important immigrants have been to these communities, the next chart shows how much Hispanics contributed to population growth during the 1990s. As you can see, there are quite a few rural counties in which Hispanics accounted for more than two percentage points of total population growth, and several in which Hispanics contributed more than 10 percentage points. Growth in the Hispanic and immigrant population has been especially pronounced in the southwestern corner of Kansas, home to several big meatpacking plants. In some of these counties, the Hispanic population is now close to 40 percent of the total population, well above the average for California and Texas. The Asian population share is also much higher in these counties than the rest of the state, though not nearly as high as the Hispanic population share.

Experts disagree sharply whether immigration at current levels is good or bad for the economy. The issue came to the fore last summer 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, but there are signs that the negotiations may soon resume.

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 carefully 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 16). 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.

Summary

Let me conclude by briefly summarizing my remarks. I began by highlighting the major results of Census 2000 for Kansas and Missouri. We saw that population has continued to grow at a slower rate in both states than in the nation as a whole. In the case of Kansas, the shortfall reflected especially sluggish growth in the state's rural population, as counties dependent on traditional agriculture suffered a steady outflow of younger residents. In the case of Missouri, the culprit was slow growth in the state's urban areas, with rapid population growth in outlying suburbs failing to compensate for stagnation in central city neighborhoods.

I then went on to describe two major demographic shifts that are now underway—shifts that are affecting both the nation and the region. 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 sharp increase in immigration from developing countries in Asia and Latin America. 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.

Both demographic shifts present difficult challenges. In the course of my talk, I have suggested some possible responses—for example, raising national saving so as to increase the economy's long-run capacity to provide for the elderly, and giving higher priority to educating the children of immigrants. There may well be other responses to the two demographic shifts. The important thing at this point is that we recognize the shifts are underway, and not bury our heads in the sand.

